

### Movement on the Silk Road: China's "Belt and Road" initiative as an incentive for intergovernmental cooperation and reforms at Central Asia's borders

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# SWP Research Paper

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and Security Affairs

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## Movement on the Silk Road

China's "Belt and Road" Initiative as an  
Incentive for Intergovernmental Cooperation  
and Reforms at Central Asia's Borders

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### **Movement on the Silk Road**

#### **China's "Belt and Road" Initiative as an Incentive for Intergovernmental Cooperation and Reforms at Central Asia's Borders**

The Beijing Silk Road Forum, hosted by the Chinese government in May 2017, once again drew international attention to China's global Belt and Road Initiative. The country aims to use it to bolster both its international legitimacy and its geopolitical power. Europe's view of the initiative is ambivalent. On one hand, it promises a certain added value, for example investment in European infrastructure, on the other hand, China and the European states were unable to resolve their disagreements at the Forum. China was not prepared to include principles demanded by the Europeans in the final communiqué, in particular guarantees of free trade and fair competition, transparency and social and environmental sustainability. For this reason, European states, including Germany, France and the UK, refused to sign the final text.

Central Asian governments, on the other hand, have a less ambivalent attitude to the Chinese Initiative. The presidents of Kazakhstan, Kyrgyzstan and Uzbekistan took part in the Forum and signed the communiqué. This was because of the great importance China now has in Central Asia, but also their strong desire to profit from the New Silk Road.

It will not be possible for the EU to become an official partner in the Chinese initiative for the foreseeable future because the interests and norms of China and the EU differ too widely at the global level. In many regions, including Central Asia, the Initiative is already playing an important role and will continue to do so in the longer term. Given the opaque nature of international alliances, European states should, therefore, try to identify common foreign policy interests with China on specific topics or regions.

It has long been one of the interests and objectives of EU's Central Asia policy to promote intergovernmental cooperation and efficient border management. However, only modest success has been achieved to date. China's Silk Road Initiative is closely linked to borders and cross-border trade. China is strongly encouraging certain reforms from the Central Asian states but is also making them a number of offers. This raises the question of whether the Chinese Initiative, along with other factors, will increase the willingness

to reform and cooperate on Central Asia's borders. If this is the case, it might be beneficial for the European Union to apply its competence and expertise and strengthen its commitment in this area.

A lack of cooperation and inefficient borders are an obstacle for the Silk Road Economic Belt (SREB), the Eurasian part of the Silk Road Initiative. One important element of the SREB is the plan to transport goods for export by high-speed train from China to Western Europe. In the long term, China would like to transport one percent of all goods to Europe by land. This Initiative allows the country to pursue its strategic, geopolitical goals and is one of Chinese President Xi Jinping's pet foreign-policy projects. As a result, the government's interest in it being a success is correspondingly high. In order for the rapid transit of goods to pay off in the long term, reforms and better cooperation on Central Asia's borders are essential.

Opportunities for changes in cooperation patterns and reforms at the borders of Central Asian countries are now far greater than in the first two decades after independence. Firstly, Kazakhstan and Uzbekistan's growth models have reached their limits which means that both states are now under greater pressure to reform. Secondly, political rule in Central Asia is now more institutionalized, thus opening up scope for partial reforms. Thirdly, since the beginning of the century, China has emerged as a powerful actor in the region but, unlike Russia, it is interested in better intra-regional cooperation in Central Asia, even if this takes place only at the bilateral level. Fourthly, the SREB provides numerous incentives for reform and more cooperation at the borders. In its official strategy documents, Beijing propagates certain policies to facilitate rapid transit, such as efficient border management and cooperative, neighbourly relations between states. Kazakhstan and Uzbekistan have officially committed to the Belt and Road Initiative and have received generous loans for infrastructure projects. Kazakhstan can also expect substantial investment. Although China has not imposed any conditions, it has created concrete incentives and mechanisms for the transfer of institutions.

However, all this does not mean that reforms will now inevitably take place. Certainly, the Central Asian states involved can no longer pull out of the Initiative completely. Consequently, the resulting question is how comprehensive, tedious and protracted will the reforms be. This, in turn, depends on how strong the states' interests are in them and what difficulties they will have implementing them.

For Germany and the EU, it might be worth discussing common interests with China and how synergies could be used to positively influence the reforms. China is already cooperating with expert organizations. However, the EU has the advantage of being able to access knowledge and experience from institutionalized partnerships in the region, namely its long-standing project on border reforms in Central Asia. The EU would, therefore, need to develop cooperation on a technical level. In the context of the EU's commitment, Germany could, for example, suggest to the Central Asian states that it play a paramount role in border reform. Since these will be difficult in any case, the topic should not be dealt with solely at expert level. For this reason, the EU, together with the Central Asian states and China, should also organize political dialogue devoted to reforms at the governmental level. This could check anti-reformists within the states and give the reformers some momentum.

One focus here should be on Uzbekistan. Although the country, under its new president, has signalled a great deal of willingness to reform, it will have to overcome some very high hurdles. Not only are there fewer reform incentives than for Kazakhstan, but the path is also stonier. It can expect numerous setbacks. It is also important for regional stability that Uzbekistan does not fall further behind Kazakhstan economically and that regional inequality does not continue to increase.

# Introduction

The issues raised here are linked to three debates currently being discussed in European foreign policy. Firstly, the EU's interests with regard to the Chinese Silk Road Initiative. Secondly, the content of EU's Central Asia policy for the coming years is up for discussion. Thirdly, it will have to be clarified how the current changes in Central Asia are to be assessed, particularly the economic upheaval, the reform impetus and the influence of external actors.

The most comprehensive and intensive of these three debates is the Chinese Belt and Road Initiative, also known as the New Silk Road Initiative. Since its official announcement by Beijing, it has developed rapidly and is beginning to take shape. At the Silk Road Forum in May 2017, the Chinese government was able to draw international attention to its global project.<sup>1</sup> The European debate is centred around geo-political and trade-policy topics as well as on infrastructure issues. Opinions are divided as to whether the Initiative benefits or harms European interests. Some see it as a threat to the EU due to the 16+1 format that China is pursuing with some Eastern European EU Member States or due to China's growing global power.<sup>2</sup> Others hope the Initiative will also benefit Europe.<sup>3</sup> Today, for example, European logis-

tics companies are among its beneficiaries.<sup>4</sup> However, the present study will only make marginal mention of the geo-policy or trade-policy context. It will focus instead on the impact of the Silk Road Initiative on institutional reforms in Central Asia.

The second debate concerns the EU's Central Asia policy. The institutional framework for the EU's commitment to the region is its Central Asia strategy which was formulated in 2007 under Germany's presidency and revised in 2015. On 19 June 2017, the Council of the European Union decided to develop a new Central Asia strategy by the end of 2019 which will be valid from 2021 onwards.<sup>5</sup> The important question is to what extent should the EU focus more on policy areas and topics that are both in the interests of the regimes in Central Asia as well as in the interests and values of the Union. It will also discuss the extent to which the EU pursues interests similar to those of major external powers.

Compared to other external actors, the EU has some advantages. It has more experience and expertise in technical cooperation with Central Asia than China. The EU was only able to achieve modest results with its long-term programme of border reforms in Central Asia (Border Management Programme in Central Asia, BOMCA). Nevertheless, the programme has allowed it to gain specific knowledge of the particular difficulties in these areas. Even though the EU has only limited influence, it could make its foreign policy commitment more effective by looking for possible common interests with major influential powers. Border reforms are not only in the interests of Central Asian states, but also of China. This is closely linked to the third debate which discusses how to regulate the recent changes seen in Central Asia and determine how deep they will go.

The present study focuses on whether the Belt and Road Initiative makes reforms and cooperation more

1 Tom Hancock, "China Encircles the World with One Belt, One Road Strategy", *Financial Times*, 3 May 2017; Hendrik Ankenbrand, "Der Welthandel soll über Chinas Seidenstraße rollen", *Frankfurter Allgemeine Zeitung*, 13 May 2017, <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/mammut-projekt-der-welthandel-soll-ueber-chinas-seidenstrasse-rollen-15012993.html> (accessed 22 May 2017).

2 Stephan Scheuer, "China will 'neue Seidenstraße' nach Osteuropa", *Handelsblatt*, 24 November 2015, <http://www.handelsblatt.com/politik/international/der-161-gipfel-china-will-neue-seidenstrasse-nach-osteuropa/12626548.html> (accessed 14 December 2016); "EU Investigates Chinese High-speed Rail Project in Hungary and Serbia", *Gbtimes*, 20 February 2017, <http://gbtimes.com/business/eu-investigates-chinese-high-speed-rail-project-hungary-and-serbia> (accessed 20 February 2017).

3 Alex Capri, "Here Are 5 Ways China's New Silk Road Is Good for Western Companies", *Forbes*, 9 February 2017, <http://www.forbes.com/sites/alexcapri/2017/02/09/here-are-a-5-ways-chinas-new-silk-road-is-good-for-western-companies/> (accessed 9 February 2017); Jacopo Maria Pepe, *China's Inroads into Central, Eastern, and South Eastern Europe. Implications for Germany*

and the EU, DGAP Analyse no. 3 (Berlin: Deutsche Gesellschaft für Auswärtige Politik [DGAP], 23 March 2017), <https://dgap.org/de/article/getFullPDF/29291> (accessed 22 May 2017).

4 Participating firms include DB Schenker and DHL.

5 Council of the European Union, *Council Conclusions on the EU Strategy for Central Asia* (Brussels, 19 June 2017), <http://data.consilium.europa.eu/doc/document/ST-10387-2017-INIT/en/pdf> (accessed 17 July 2017).



likely on the border between Kazakhstan and Uzbekistan. It is, therefore, about changes to or transfer of institutions. These are understood here in a broad historical-sociological sense, as “formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy”.<sup>6</sup> Political institutions do not exist completely autonomously from society but are influenced by social symbol systems, patterns of perception and notions of morality.<sup>7</sup>

Institutional reforms within a country can be traced back to both internal and external factors. Reforms are unlikely to happen without an internal ‘reform coalition’ among political elites. This also applies to authoritarian systems which is due to an often overlooked paradox of authoritarianism: the more resources and decision-making power an authoritarian ruler possesses, the more dependent he is on his personnel. They provide him with information and control the implementation of decisions. In order to implement and realise reforms, he needs supporters in politics and bureaucracy who are interested in these reforms. However, in practice, this is often more difficult than generally assumed.<sup>8</sup>

Even if domestic policy-makers are largely in favour of institutional reforms, they often also depend on external factors.<sup>9</sup> New laws and regulations in an economically strong country may lead to similar reforms in countries dependent on trade with this country. Larger states sometimes also deliberately try to influence legislation in smaller states by creating incentives or pressure. The prestige of a major power can also make smaller states copy the institutions and policies of this major power.<sup>10</sup>

<sup>6</sup> Peter A. Hall and Rosemary C. R. Taylor, “Political Science and the Three New Institutionalisms”, *Political Studies* 44, no. 5 (1996): 936–57 (938).

<sup>7</sup> Ibid., 947.

<sup>8</sup> In contrast, the widespread assumption in transformation research in the 1990s was that authoritarian rulers could, in principle, make and implement any decision. Carothers was the first person to cast doubt on this thesis. Thomas Carothers, “The End of the Transition Paradigm”, *Journal of Democracy* 13, no. 1 (2002): 5–21.

<sup>9</sup> This has been the focus of diffusion research. See e.g. Kurt Weyland, “Theories of Policy Diffusion: Lessons from Latin American Pension Reform”, *World Politics* 57, no. 2 (2005): 262–95.

<sup>10</sup> Benjamin O. Fordham and Victor Asal, “Billiard Balls or Snowflakes? Major Power Prestige and the International Diffusion of Institutions and Practices”, *International Studies Quarterly* 51, no. 1 (2007): 31–52.

In analyzing the influence of the Chinese Belt and Road Initiative on Central Asian states, both types of factors play a role. Economic upheaval has, therefore, increased pressure on Kazakhstan and Uzbekistan to reform. This affects the internal political constellation of reformers and anti-reformists. In addition, there are two important external factors: firstly, the rise of China as a regional power in Central Asia which is clearly different from Russia and, secondly, the Belt and Road Initiative as a tool for stimulating reform and cooperation.

## External actors in Central Asia: EU, Russia and the US

China is now the most economically significant external player in Central Asia. Russia and to a lesser extent the EU, the US, Japan and Turkey also play a role. New actors such as South Korea and India are emerging and, in the future, perhaps also Iran as a regional player.

**Table 1**  
Kazakhstan, trade in billions of euros, 2016

Trading partner	Russia	China	EU	US
Exports	3.17	3.81	16.7	0.56
Imports	8.25	3.31	5.2	1.15

Source: European Commission.

**Table 2**  
Uzbekistan, trade in billions of euros, 2016

Trading partner	Russia	China	EU	US
Exports	0.63	1.37	0.17	0.09
Imports	1.9	1.97	1.72	0.31

Source: European Commission.

The EU and its Member States are external actors with limited influence in the region. The EU maintains particularly close trading relations with Kazakhstan. The volume of Kazakh trade with Europe in 2014 was €30.6 billion and €5 billion with Germany. Much of this is due to oil exports. The trading volume fell to €17.9 billion in 2016 as a result of the fall in oil prices.<sup>11</sup>

<sup>11</sup> European Commission, *European Union, Trade in Goods with Kazakhstan*, 3 May 2017, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113406.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113406.pdf) (accessed 9 May 2017).

The EU signed an extended partnership agreement with Kazakhstan in 2015. EU trade with four other countries in Central Asia – Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan – is at a rather low level. The EU was one of the first external actors to take up the cause of promoting regional trade and facilitating transport. Some of the corridors now used by China for its Central Asia Regional Economic Cooperation Programme (CAREC) are based on the EU's TRACECA programme (Transport Corridor Europe–Caucasus–Asia).<sup>12</sup>

The Central Asia strategy, which was drafted by Germany in 2007, has raised the EU's relations with the region to a more formal level.<sup>13</sup> The aim of the strategy was to give the relationship greater symbolic importance as well as to define specific priorities for EU commitment. It defined seven areas of cooperation: 1) Human rights and the rule of law, good governance and democratization, 2) Youth and education, 3) Economic development, 4) Energy and transport, 5) Environmental protection, 6) Combating common threats, 7) Intercultural dialogue. A number of different programmes are linked to the strategy, such as the Rule of Law Initiative, the Border Management Programme in Central Asia (BOMCA) and the Central Asia Drug Action Programme (CADAP).<sup>14</sup> In 2015, the Central Asia strategy was reviewed and the project budget was increased by 56 percent to over €1 billion for the period 2017–2021.<sup>15</sup> In addition to the political and economic cooperation taking place as part of the Central Asia Strategy, Europe is also present in the region in the form of the European Bank for Reconstruction and Development (EBRD). In 2015, it was involved in financing inter alia infrastructure projects worth €1.4 billion.<sup>16</sup>

#### Box 1: TRACECA, CAREC, BOMCA

China's New Silk Road Initiative is neither the only nor the first initiative aimed at promoting trade and economic cooperation in Eurasia.

TRACECA (Transport Corridor Europe–Caucasus–Asia) is a European Commission initiative founded in Baku in 1998. Its members are all the states in Central Asia and the South Caucasus except Turkmenistan. Its aim is to promote trade within the region and with Europe through international transport corridors. TRACECA has had some success in technical aspects but has made no progress at the institutional level.

The Central Asia Regional Economic Cooperation (CAREC) programme was launched in 1997 at the instigation of the Asian Development Bank. In addition to all five Central Asian countries, China, Pakistan, Afghanistan and Mongolia also participate in CAREC. It pursues objectives similar to those of TRACECA but focuses on connectivity with the Asian neighbours of Central Asia. The programme was successful in terms of establishing, developing and monitoring transport corridors in Central Asia. CAREC has not yet succeeded in breaking down trade barriers.

The Border Management Programme in Central Asia (BOMCA) is an EU programme aimed at improving border management in Central Asia. The focus of commitment is now on supporting the technical modernization of border installations and training personnel. In practice, more attention is given to border security than to facilitating trade.

<sup>12</sup> Marlène Laruelle and Sébastien Peyrouse, *Regional Organizations in Central Asia: Patterns of Interaction, Dilemmas of Efficiency*, Working Paper no. 10/2012 (Bishkek: University of Central Asia, Institute of Public Policy and Administration, 2012), <http://www.ucentralasia.org/Content/Downloads/UCA-IPPA-WP-10-RegionalOrganizations.pdf> (accessed 10 August 2016).

<sup>13</sup> European Council, *The EU and Central Asia: Strategy for a New Partnership* (Brussels, 31 July 2007), [https://eeas.europa.eu/sites/eeas/files/st\\_10113\\_2007\\_init\\_en.pdf](https://eeas.europa.eu/sites/eeas/files/st_10113_2007_init_en.pdf) (accessed 3 November 2017).

<sup>14</sup> Andrea Schmitz, "The Central Asia Strategy: An Exercise in EU Foreign Policy Making", in *The European Union and Central Asia*, ed. Alexander Warkotsch (London, 2014), 11–21.

<sup>15</sup> Council of the European Union, *Relations with Central Asia. Council Conclusions on the EU Strategy for Central Asia* (Brussels, 22 June 2015), <http://data.consilium.europa.eu/doc/document/ST-10191-2015-INIT/en/pdf> (accessed 3 November 2017).

<sup>16</sup> Svitlana Pyrkalo, "EBRD Investment in Central Asia Reaches Record €1.4 Billion in 2015", European Bank for Reconstruction

and Development, 13 January 2016, <http://www.ebrd.com/news/2016/ebrd-investment-in-central-asia-reaches-record-14-billion-in-2015.html> (accessed 15 December 2016).

Russia, the former regional hegemon, is still strongly linked to the region economically, culturally and also in terms of security policy. Although the country lost its position as the most important trading partner and investor to China, it still plays a key role in Central Asia. Consequently, Russia is still Kazakhstan's second most important trading partner.

In security policy terms, Russia is relevant to the region in multiple – and ambivalent – ways. It acts as a security policy guarantor for the authoritarian regimes of the region and dominates the most important military organization in the post-Soviet region, the Col-

lective Security Treaty Organisation (CSTO), but to which Uzbekistan and Turkmenistan do not belong. The annexation of the Crimea has also made it clear to the Central Asian regimes that refusing to show loyalty to the former hegemon would threaten their national security. However, unlike in the case of Ukraine, there is no integration competition for Russia in Central Asia, neither with the EU nor China.

The Eurasian Economic Union (EAEU) is Russia's regional project which has been primarily promoted with Kazakhstan. It is the first regional organization in the post-Soviet area to pursue economic integration and to create a joint internal market and levy common external tariffs. However, due to the economic crisis in Russia, the EAEU has not been able to gain any momentum. Kazakhstan has already suffered considerable economic losses from its integration.<sup>17</sup>

The US was a particularly important security and economic actor in the region in the 1990s, especially in the oil business. After 2001, the US saw Central Asia primarily in the context of efforts to stabilize Afghanistan. It had two military bases in Uzbekistan and Kyrgyzstan, but these were closed in 2005 and 2014 respectively. Hillary Clinton was the first to float the idea of a Silk Road Initiative during her visit to India in 2011. The United States wanted to pursue several geopolitical goals here: reducing the dependency of Central Asia on Russia, weakening Iran and strengthening Turkey. However, Clinton's idea was never translated into a policy strategy by Washington and served more as a metaphor for US involvement in Central Asia.<sup>18</sup> The US's most recent cooperative initiative is the so-called 5+1 format. Discussions at meetings of Central Asian Foreign Ministers with the then US Secretary of State John Kerry were also about trading issues. No specific Central Asia policy has yet been identified under the Trump administration. However, the relationship between the US and Russia is relevant for Central Asia. A possible rapprochement between the two major powers is considered critical there.<sup>19</sup>

The major external powers influenced regional cooperation and state reforms in different ways. Russia's primary interest was and is (post-) hegemonic control over the countries of Central Asia, but not intra-regional cooperation. By joining the Central Asian Union in 2005, Russia has helped end this regional project. The US, on the other hand, is said to have a fundamental interest in regional cooperation but did not actually promote it. The EU is now committed to promoting cooperation and reforms, but its influence in the region has proved to be too limited to initiate fundamental changes in interest. China is, therefore, the first external actor which not only has major power and considerable resources but also has a fundamental interest in more intra-regional cooperation.

<sup>17</sup> Vjacheslav Polovinko, "Sojuz obrechennykh" [Union of the Heteronomous], *Novaja Gazeta*, 13 January 2016, <http://www.novayagazeta.ru/articles/2016/01/13/67029-soyuz-obrechennykh> (accessed 10 August 2016).

<sup>18</sup> Marlène Laruelle, "The US Silk Road. Geopolitical Imaginary or the Repackaging of Strategic Interests?", *Eurasian Geography and Economics* 56, no. 4 (2015): 360–75.

<sup>19</sup> "Trevozhnye ozhidaniya na postsovetkom prostranstve" [Uneasy expectations in post-Soviet area], *Nezavisimaja Gazeta*,

20 January 2017, [http://www.ng.ru/editorial/2017-01-20/2\\_6908\\_red.html](http://www.ng.ru/editorial/2017-01-20/2_6908_red.html) (accessed 10 March 2017).

## The context: economic upheaval, institutionalization, the rise of China

External reform incentives and internal willingness to implement reforms in Kazakhstan and Uzbekistan must now be looked at in a new light. Firstly, pressure to reform has increased because both states are suffering from a structural economic crisis that threatens the financing of state control. Uzbekistan's internal crisis is also exacerbated by regional processes, first and foremost, the establishment of the Eurasian Economic Union. Secondly, the Central Asian states' capacity to act has increased. Unlike in the 1990s, they have succeeded in institutionalizing their domestic and foreign policy. Their ability to implement political projects and, therefore, also reforms is fundamentally greater today than in the years after their respective declarations of independence. Thirdly, the period since the beginning of the millennium has been marked by China's rise in Central Asia. As far as power in the region is concerned, certainly China can now compete with Russia.

### 25 years of difficult relations

Relations between Kazakhstan and Uzbekistan since they declared independence in 1991 are characterized, above all, by Uzbekistan's isolation and refusal to conclude partnerships. Although the two countries have signed extensive agreements, these have never been implemented. The 1998 Agreement on Eternal Friendship<sup>20</sup> was somewhat of an integration project. The states assured mutual aid in the face of threats to independence, sovereignty and territorial integrity, which also included military support. They also agreed to coordinate their policies on regional and global issues.<sup>21</sup>

<sup>20</sup> The agreement was also signed by Kyrgyzstan, but it is not a multilateral document. *Parlament Respubliki Kazakhstan, O ratifikacii Dogovora o vechnoj družbe mezhdru Respublikoj Kazakhstan i Respublikoj Uzbekistan* [Ratification of the Agreement on Eternal Friendship between the Republic of Kazakhstan and the Republic of Uzbekistan], 1999.

<sup>21</sup> Farkhod Tolipov, "Uzbekistan and Kazakhstan: Competitors, Strategic Partners or Eternal Friends?", *Central Asia-Caucasus Analyst*, 9 August 2013, <http://www.cacianalyst.org/publications/analytical-articles/item/12786-uzbekistan-and->

Uzbekistan, in particular, embarked on a course of self-sufficiency and tried to reduce its dependencies as much as possible by means of economic unbundling. Kazakhstan was occasionally obliged to follow its example. This resulted in conflicts over cross-border electricity and gas supplies.<sup>22</sup> In Soviet times, there was a joint Central Asian electricity grid which, in principle, still allows cross-border electricity trade today. However, Uzbekistan severed its connections to this regional electricity grid soon after independence, also cutting off Tajikistan in the process. Kazakhstan did not take this step officially, but the Kazakh grid operator took precautions to uncouple the country from the regional grid within a few hours.<sup>23</sup>

Economic relations are also weak, while trade and investment are low. Uzbekistan not only isolated its economy but often closed borders or limited the export of certain goods without prior notice.<sup>24</sup> In 2017, Uzbekistan was ranked 148th (Kazakhstan: 42nd) on the Index of Economic Freedom compiled by the Heritage Foundation.<sup>25</sup> Although the two countries

*kazakhstan-competitors-strategic-partners-or-eternal-friends* (accessed 11 August 2016).

<sup>22</sup> The Kazakh grid operator criticized Uzbekistan for repeatedly overstepping agreed volumes over a short period, resulting in frequent power outages in southern Kazakhstan. Vasilij Ivanov, "Dlja vychoda iz ob'edinennoj énergosistemy CA Kazachstanu nuzhno neskol'ko dnej" [Kazakhstan requires only a few days to leave Central Asia's joint energy system], *Panorama*, 9 December 2011, <http://www.kegoc.kz/ru/press-centr/smi-o-kompanii/dlya-vyhoda-iz-obedinennoj-energosistemy-ca-kazachstanu-nuzhno-neskolko> (accessed 4 August 2016).

<sup>23</sup> "KEGOC vystupaet za razdel'nyj rezhim raboty ot énergosistem Uzbekistana" [KEGOC calls for independence from Uzbekistan's energy system], *KEGOC* (Kazakh power grid operator), 21 December 2001, <http://www.kegoc.kz/ru/press-centr/smi-o-kompanii/kegoc-vystupaet-za-razdelnyj-rezhim-raboty-ot-energosistem-uzbekistana> (accessed 9 August 2016).

<sup>24</sup> Cf. "Uzbekistan ogranichil éksport fruktov i ovoshchej v Kazakhstan" [Uzbekistan restricts export of fruit and vegetables to Kazakhstan], *365info*, 16 November 2015, <https://365info.kz/2015/11/uzbekistan-93-kompaniyam-razreshili-eksport-selhozproduktsii-v-kazakhstan/> (accessed 12 December 2016).

<sup>25</sup> The index measures factors concerning the rule of law, public spending and taxes, regulatory efficiency and market access. Heritage Foundation, *2017 Index of Economic Freedom*:

have concluded a free trade agreement, it has had little effect so far.<sup>26</sup> Uzbekistan is using customs duties to promote the export of processed products and to prevent products produced in its own market being imported. In order to protect domestic production and export industries, import duties of up to 120 percent are levied in some cases, e.g. for cars.<sup>27</sup> Foreign investment is only possible in the export sector, with investors having to contend with a ban on converting currency and a state-regulated exchange rate system.<sup>28</sup>

Uzbekistan's difficult relationship with international treaties was also detrimental to trade, as the example of the TIR system (Transport Internationaux Routiers) shows. The TIR Convention regulates international road freight transport and allows lorries to transit through participating states more simply and cost-effectively. Uzbekistan is a member of the TIR Convention but does not comply with the agreements. There is, for example, a convoy requirement for lorries.<sup>29</sup> In addition, there are high customs duties for import and transit. While Kazakhstan has lowered its fees for lorries to enter and exit the country from around \$200 in 2000 to around \$100 in 2010, Uzbekistan still charges around \$300.<sup>30</sup>

Assessments of Uzbekistan's strong economic isolation have varied considerably. At times, observers have spoken of an Uzbek miracle as the country sur-

vived the international financial crises relatively unscathed and has been able to grow its own industry.<sup>31</sup> Others complain about the extreme lack of transparency and the high long-term human and economic costs of the Uzbek economic model.<sup>32</sup> However, data provided by Uzbekistan is considered untrustworthy, so caution should be exercised in assessing its economic situation.<sup>33</sup> Kazakhstan, on the other hand, has pursued a policy of openness to foreign investments from the outset and has tried to present itself as a reliable partner on the international stage. It has been a member of the WTO since 2015 and is currently seeking membership of the OECD.<sup>34</sup> In fact, foreign direct investment in Kazakhstan is the highest in the post-Soviet area.

The reasons for these totally different economic models lie mainly in the state-building processes employed after independence. Kazakhstan's industry was controlled by Russia until 1991. In order to continue operating and modernizing, the country urgently needed foreign capital. At the beginning of the 1990s, it followed the neo-liberal state and economic model, as international financial institutions referred to it at the time. Adopted in 1993, its first constitution was democratic in nature. Although it was replaced by an authoritarian constitution in 1995,<sup>35</sup> liberal economic policy and its focus on foreign direct investment remained unchanged. From 1997, Kazakhstan

Kazakhstan, <http://www.heritage.org/index/country/kazakhstan> (accessed 9 December 2016).

<sup>26</sup> This applies to most trade policy contracts, see Asian Development Bank (ADB), *Central Asia. Increasing Gains from Trade through Regional Cooperation in Trade Policy, Transport, and Customs Transit* (Manila, 2006), 41.

<sup>27</sup> Bahodir Ganiev and Yuliy Yusupov, *Uzbekistan: Trade Regime and Recent Trade Developments*, Working Paper no. 4/2012 (Bishkek: University of Central Asia, Institute of Public Policy and Administration, 2012), 11–13.

<sup>28</sup> Pauline Jones Luong, "Political Obstacles to Economic Reform in Uzbekistan, the Kyrgyz Republic, and Tajikistan: Strategies for Moving Ahead", in *The Low-income Countries of the Commonwealth of Independent States. Progress and Challenges in Transition*, ed. Clinton R. Shiells and Sarosh Sattar (Washington, D.C., 2004), 203–36.

<sup>29</sup> This information is based on an interview with a trade expert in Bishkek, September 2016. The TIR Convention was drafted under the coordination of the United Nations Economic Commission for Europe (UNECE) and came into force in 1978. Uzbekistan joined in 1995.

<sup>30</sup> Elena Kulipanova, *International Transport in Central Asia: Understanding the Patterns of (Non-) Cooperation*, Working Paper no. 2/2012 (Bishkek: University of Central Asia, Institute of Public Policy and Administration, 2012), 15ff. In addition to these formal fees, informal payments are also required at the border.

<sup>31</sup> Richard Pomfret, *Central Asia since 1991: The Experience of the New Independent States*, Working Paper no. 212 (Paris: OECD Development Centre, July 2003), [http://www.oecd-ilibrary.org/development/central-asia-since-1991\\_738202560358](http://www.oecd-ilibrary.org/development/central-asia-since-1991_738202560358) (accessed 9 December 2016).

<sup>32</sup> On human rights infringements in Uzbekistan, see e.g., Hugh Williamson, "Nicht länger wegschauen", *Neue Zürcher Zeitung*, 21 September 2016, <http://www.nzz.ch/meinung/kommentare/menschenrechtsverletzungen-in-usbekistan-nicht-laenger-wegschauen-ld.117715> (accessed 1 December 2016).

<sup>33</sup> Economist Intelligence Unit, *Uzbekistan*, 2016.

<sup>34</sup> Kazakhstan has been a member of the World Trade Organization since the end of 2015, cf. WTO, "Kazakhstan Joins the WTO as 162nd Member", 30 November 2015, [http://www.wto.org/english/news\\_e/news15\\_e/acc\\_kaz\\_30nov15\\_e.htm](http://www.wto.org/english/news_e/news15_e/acc_kaz_30nov15_e.htm) (accessed 9 December 2016); OECD, "OECD Bolsters Relationship with Kazakhstan – Signs Kazakhstan Country Programme Agreement", 22 January 2015, <http://www.oecd.org/newsroom/oecd-bolsters-relationship-with-kazakhstan-signs-kazakhstan-country-programme-agreement.htm> (accessed 9 December 2016).

<sup>35</sup> Otto Luchterhandt, "Präsidentalismus in den GUS-Staaten", in *Neue Regierungssysteme in Osteuropa und der GUS. Probleme der Ausbildung stabiler Machtinstitutionen*, ed. Otto Luchterhandt, second edition (Berlin, 2002), 268–79.

**Table 3**  
**Economic data for Kazakhstan and Uzbekistan**

	<i>Kazakhstan</i>			<i>Uzbekistan</i>		
	2014	2015	2016	2014	2015	2016
Population in millions	17.29	17.54	17.80	30.76	31.30	31.85
GDP in billions of US dollars	221.40	184.40	133.70	63.00	66.90	67.20
GDP per capita in US dollars	12,800	10,500	7,500	2,000	2,100	2,100
GDP growth in percent	4.2	1.2	0.9	8.1	8.0	7.3

a The Economist Intelligence Unit considers data reported by Uzbekistan unreliable.

They should, therefore, only be considered rough guidelines.

Source: World Bank.

freed itself from the neo-liberal model and began to pursue a developmental state approach in which the state was the major driver of the economy.<sup>36</sup> However, it maintained its basic openness to foreign investors and strong links to foreign markets. Kazakhstan also operated a firm policy of social openness. The government enabled more than 11,000 students to study abroad in industrialized countries through the Bolashak scholarship programme.<sup>37</sup>

In contrast, Uzbekistan moved in a completely different direction. Unlike Kazakhstan, there was neither a 'democratic experiment' nor any significant privatization. Uzbekistan has considerable energy resources and high domestic demand which explains its interest in self-sufficiency and its unwillingness to engage in binding cooperation.<sup>38</sup> In addition, the establishment of a closed, patrimonial-authoritarian ruling system meant that regime security took precedence.

## Economic upheaval and reform pressure

Kazakhstan's economic crisis has several causes. The country's largest source of income is the export of natural resources, mainly oil. Attempts at economic diversification in the 2000s had little success. As a result, the country is directly affected by the impact of the low oil price. It also suffered indirectly from the Russian economic crisis, which was also caused by the fall in oil prices, and the consequences of China's

weak growth also affected Kazakhstan. While China's growth can pick up again, the oil price is not expected to rise again above the \$100 mark. The high prices allowed Kazakhstan to enjoy growth rates of more than ten percent from 1999. But, in 2014, growth fell for the first time to under five percent and in early 2016 there was even a recession. A maximum of three percent growth per annum is expected in the coming years. High inflation and the depreciation of the national currency have already led to lower household incomes for the middle class.<sup>39</sup>

Uzbekistan is also struggling with an economic crisis. The country has long insisted on economic protectionism and developing its export industry. As a result, it has achieved astounding growth rates for many years and survived the international financial crises almost unscathed. Meanwhile, the Uzbek model is reaching its limits. Due to the lack of effective reforms under President Karimov, unemployment had multiplied and remittances of Uzbek migrant workers had become increasingly important. Since remittances were shrinking and Russia had become an overall small, but from an Uzbek perspective, important sales market, the country has been hit by the Russian economic crisis. China's weak economic development has also been felt in Uzbekistan.<sup>40</sup>

<sup>36</sup> Andrea Schmitz, *Kasachstan: neue Führungsmacht im post-sowjetischen Raum?*, SWP-Studie 7/2009 (Berlin: Stiftung Wissenschaft und Politik, March 2009), 12ff.

<sup>37</sup> Data from programme website, <http://bolashak.gov.kz> (accessed 12 January 2017).

<sup>38</sup> European Parliament, *Uzbekistan: Selected Trade and Economic Issues* (Brussels, September 2013), 6.

<sup>39</sup> However, this would not necessarily lead to potential protest. See also economic data from Economist Intelligence Unit, *Kazakhstan. Country Report* (London, 3 November 2016).

<sup>40</sup> Paul Stronski, *Uzbekistan at Twenty-Five: What Next?* (Washington, D.C.: Carnegie Endowment for International Peace, 21 March 2016), <http://carnegieendowment.org/2016/03/21/uzbekistan-at-twenty-five-what-next-pub-63083> (accessed 20 November 2016); Economist Intelligence Unit, *Uzbekistan* (see note 33).

Moreover, Uzbekistan harbours fears that the country might become marginalized in the region.<sup>41</sup> In the official version, Uzbekistan is proud of its self-imposed independence. In fact, the two major regional projects, the Eurasian Economic Union and the Silk Road Initiative, could become a problem for various reasons. This is particularly true for the EAEU. Uzbekistan cannot become a member, for now, because the country would have to surrender sovereignty.<sup>42</sup> The EAEU, and especially its customs union, counteract Uzbekistan's export strategy.<sup>43</sup> Uzbekistan can no longer exclusively negotiate bilaterally with the member states of the EAEU and runs the risk of no longer being able to export certain products. Furthermore, the introduction of EAEU-wide standards would require difficult adjustments. When, for example, the 2015 Economic Union imposed new safety standards for cars, Uzbekistan was no longer able to export its cars to the EAEU area and had to first alter its production processes.<sup>44</sup> Above all, Russia can use import restrictions as a means to exert political pressure on Uzbekistan.

The former, now deceased, President Islom Karimov tried to find a way out of this dilemma. Although he rejected Uzbekistan joining the EAEU several times, instead, he proposed a 'privileged partnership' called 'EAEU plus Uzbekistan'. In 2013, two years after the Customs Union came into force and shortly before the start of the EAEU Economic Area, Uzbekistan became a member of the free trade area of the Commonwealth of Independent States (CIS). This had both symbolic and material reasons. In terms of its original objectives, the CIS free trade area was considered a failure.<sup>45</sup> Accession did not place any obligations on Uzbekistan but allowed it to hold it up as a symbol against the burgeoning image of an increasingly isolated country. In material terms, the CIS free trade area was also relevant in that it provides a framework for bilateral trade negotiations. However, the government has so far

refused to join free trade areas which are subject to greater restrictions on sovereignty. This was most recently confirmed at the Shanghai Organization for Cooperation (SCO) summit in Tashkent in June 2016.<sup>46</sup>

However, the SREB initiative does threaten to leave Uzbekistan behind. Kazakhstan is already China's most important partner in Central Asia and has the greatest chance of benefiting economically from the initiative. However, if Uzbekistan is unwilling to implement reforms, it will increasingly fall behind its neighbour Kazakhstan.

Overall, it can be said that pressure on both countries to reform has increased. As domestic interest in reforms has grown, the effect of external reform incentives has also intensified. Consequently, reforms in the economy and political institutions appear more probable than previously. A further slight rise in energy prices would lessen the pressure somewhat, but would not alter the structural problems.

## Nation building and political institutionalization

The current situation in Kazakhstan and Uzbekistan is also different from that of the 1990s because state power is more institutionalized. Prior to 1991, the Soviet republics of Central Asia had limited decision-making powers. The highest office in the republics, that of President of the Party and Council of Ministers, was occupied by Soviet leadership and not through free elections or decisions by the republics' elites. The Politburo in Moscow had significant influence on the career opportunities of the local cadres in Central Asia who were strongly oriented towards Moscow as a result. The Centre was also responsible for regional, foreign policy and many national economic issues. Large swathes of industry in Central Asia were owned by Moscow's Soviet bureaucracy. Within this framework, however, the national elites were still able to make their own decisions on domestic issues.

As a result, the 1990s saw the institutionalization of independent statehood, the development and implementation of central policies, such as economic and foreign policy, reorganization of government structures and the establishment of hierarchies. In

<sup>41</sup> Interview with an Uzbek expert, Almaty, September 2016.

<sup>42</sup> See also Vsevolod Samokhvalov, "The New Eurasia: Post-Soviet Space between Russia, Europe and China", *European Politics and Society* 17, no. 1 (2016): 82–96, <http://dx.doi.org/10.1080/23745118.2016.1171285> (accessed 25 May 2017).

<sup>43</sup> "Rasshrenie EAES so vremenem privedet k izoljácii Uzbekistana" [Expanding the EAEU will lead to Uzbekistan's isolation in the long term], *Regnum*, 7 December 2015, <https://regnum.ru/news/2029866.html> (accessed 1 December 2016).

<sup>44</sup> Interview with trade experts, Astana, September 2016.

<sup>45</sup> Martha Brill Olcott, Anders Åslund and Sherman W. Garnett, *Getting It Wrong. Regional Cooperation and the Commonwealth of Independent States* (Washington, D.C., 1999).

<sup>46</sup> "Uzbekistan ne podderzhal predlozhenie Kitaja o sozdanii zony svobodnoj trgovli v ramkakh SHOS" (Interfaks) [Uzbekistan rejects China's proposal to set up a free trade area as part of SCO], *Express K*, 16 December 2015, [http://www.express-k.kz/news/?ELEMENT\\_ID=62623](http://www.express-k.kz/news/?ELEMENT_ID=62623) (accessed 8 October 2016).

addition, since the communist ideology had failed as a coherently symbolic order overnight, the states had to replace it with their own value systems.

Both states have a strong concentration of power at the executive level, especially directly with the president. Important administrative structures were also established in Kazakhstan and Uzbekistan, mainly in the field of security, but also in finance and tax administration. Not least, both countries leaned towards specific economic models.<sup>47</sup> Moreover, a presidential party (Nur Otan) was created to institutionalize political power in Kazakhstan. While Uzbekistan's President, Islom Karimov, developed an extremely repressive regime, Kazakhstan's President, Nursultan Nazarbayev, strived to establish legitimacy primarily through growth and by giving the population economic participation. In the 1990s, the countries had to thoroughly reinvent themselves. This was achieved at the political level by forming foreign policy identities and at the administrative level by creating their own foreign ministries. Ideologically, Kazakhstan initially established an authoritarian-neoliberal order and chose economic progress as its credo. Uzbekistan's symbolic order, on the other hand, was based mainly on traditional-historical values. Greater institutionalization of politics and functioning hierarchies have not yet caused any reforms. But they do create more favorable conditions because they reduce any uncertainty actors may have in the change process and increase controllability. In the regime's view, this is especially true of difficult reforms affecting the system of political power and sovereignty.

## China's rise in Central Asia

The period since the turn of the millennium has been dominated by the rise of China in Central Asia. The states of Central Asia play a subordinate role in Beijing's foreign policy strategy. However, China's Central Asia policy comes under the category of its neighbourhood policy which, in its foreign policy ranking, is second only to relations with major powers.<sup>48</sup> The volume of trade between Kazakhstan and China came to over €7 billion in 2016 which accounted for 12.7 percent of Kazakhstan's total foreign trade. In con-

trast, the value of trade between China and Uzbekistan in absolute terms only came to €3.34 billion, but 20.8 percent of total Uzbek foreign trade.

China is now the most important trading partner, investor, lender and purchaser of energy supplies for Central Asia. Since the 2000s, China has been the main importer of crude oil and natural gas from the region and, as a result, has become their most important trading partner. Due to its constantly increasing demand for energy, China has been dependent on imports of oil since 1993 and on gas since 1993. According to estimates, the country will have to cover two thirds of its oil demand from imports by 2022.<sup>49</sup>

Trade between China and Central Asia is anything but balanced. Around 85 percent of China's exports to Central Asia are processed products and consumer goods. In the case of imports from Central Asia, the ratio of unprocessed products is also 85 percent. These are primarily energy resources and metals. For a long time, the majority of trade went through Kyrgyzstan and the goods imported from China were resold from there. This has changed markedly since the Eurasian Economic Union was established in 2014.

China's main oil supplier in Central Asia is Kazakhstan, from whom China purchased two percent of its total oil imports in 2014.<sup>50</sup> China made an agreement with Uzbekistan on gas supplies in 2009. However, while Uzbekistan's gas exports to China certainly play a role, they do not appear in China's energy mix as they amount to less than 0.4 percent.<sup>51</sup>

China has, at the very least, caught up with Russia as a major investor in Central Asia. Officially, China had invested \$6 billion in Uzbekistan by 2016, according to Russia's own figures.<sup>52</sup> China's investments in

<sup>49</sup> Julia Kuszniir and Karen Smith Stegen, "Outcomes and Strategies in the 'New Great Game': China and the Caspian States Emerge as Winners", *Journal of Eurasian Studies* 6, no. 2 (2015): 91–106 (101).

<sup>50</sup> Nick Cunningham, "The Battle for China's Oil Market", *Oilprice.com*, 15 July 2015, <http://oilprice.com/Energy/Crude-Oil/The-Battle-For-Chinas-Oil-Market.html> (accessed 19 December 2016).

<sup>51</sup> Cf. Konstantin L. Syroezhkin, *Kazakhstan – Kitaj: ot pograničnoj trgovli k strategicheskomu partnerstvu* [Kazakhstan – China: from border trade to strategic partnership] (Almaty, 2010); BP, *BP Statistical Review of World Energy 2012* (London, June 2012), [http://www.bp.com/de\\_at/austria/presse/presseinformationen/61-bp-statistical-review-2012.html](http://www.bp.com/de_at/austria/presse/presseinformationen/61-bp-statistical-review-2012.html). Turkmenistan is China's most important gas supplier.

<sup>52</sup> "China Catches Up with Russia as Major Investor in Uzbekistan" (Reuters), *Daily Mail Online*, 24 May 2016, <http://www.dailymail.co.uk/wires/reuters/article-3607446/China-catches-Russia-major-investor-Uzbekistan.html>.

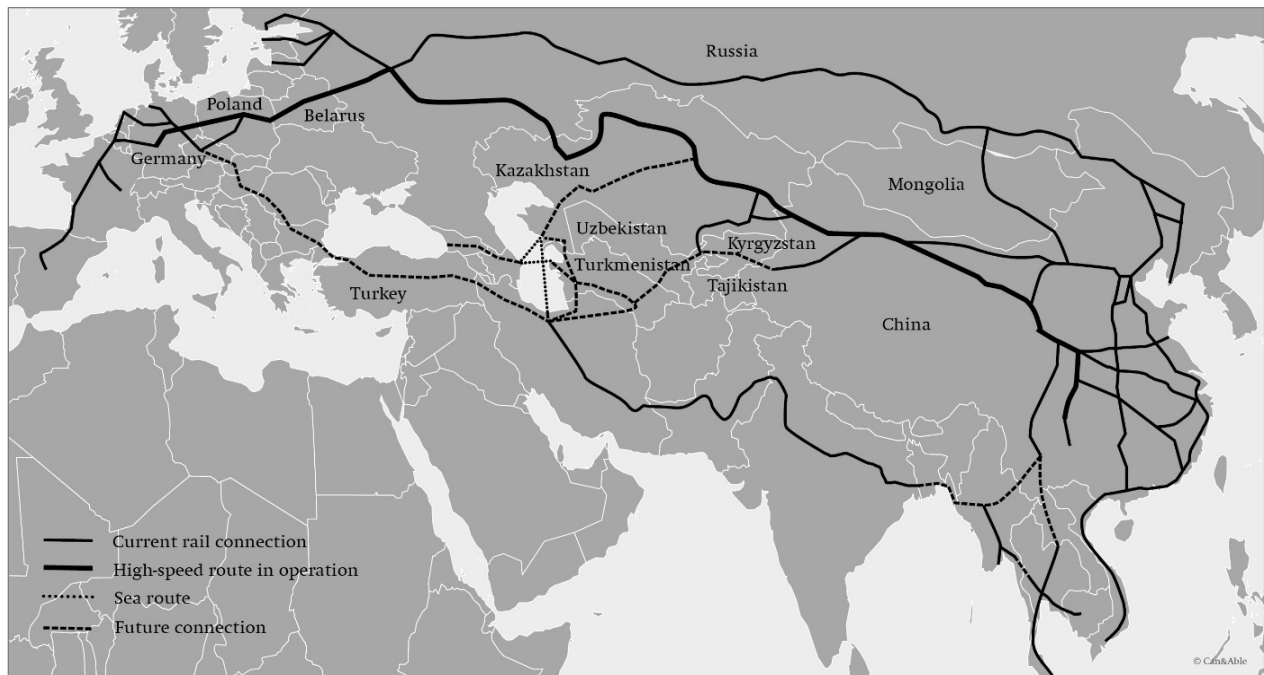
<sup>47</sup> See also e.g. in area of central banks Juliet Johnson, *Priests of Prosperity. How Central Bankers Transformed the Postcommunist World* (Ithaca, 2016).

<sup>48</sup> Weiqing Song, *China's Approach to Central Asia. The Shanghai Co-operation Organisation* (London, 2016), 4, 11.



## Map

### Current and future high-speed connections between China and Europe



Kazakhstan exceeded this amount considerably. This is particularly evident in relations in the energy sector. All 22 Chinese energy companies are active in the Kazakh oil sector, while ten Kazakhstan companies are 100-percent Chinese owned. Approximately 40 percent of the Kazakh oil sector is controlled by Chinese companies, including the China National Petroleum Corporation (CNPC).<sup>53</sup> China is also investing in the Kazakh banking sector. A new kind of investment partnership is transferring 51 Chinese factories to Kazakhstan. The two countries agreed this undertaking in September 2016. The total investment sum is around \$26 billion.<sup>54</sup>

In addition to bilateral economic relations, China can boast of two successful projects in the region. The China–Central Asia gas pipeline is China’s first transnational infrastructure project in the region. The pipeline, which is 1833 kilometres long, was completed in 2009 and will mainly transport Turkmen gas to China. The pipeline is enormously important since China meets nearly 50 percent of its gas demand with Turk-

men gas.<sup>55</sup> It was built through joint ventures between CNPC and companies in the respective countries, in the case of Uzbekistan with state-owned Uzbekneftegaz.<sup>56</sup> In Kazakhstan, Aziatskij Gazoprovod was founded especially for this project.<sup>57</sup> However, the pipeline was negotiated exclusively with the Central Asian states in bilateral mode. Unlike the transit issue, no institutional reforms or intensive cooperation between the countries are required for the construction and operation of the gas pipeline. Nevertheless, the project also has a regional dimension. Kazakhstan and Uzbekistan have the option of feeding in their own gas or purchasing gas for themselves. According to Kazakhstan, the amount of gas transported to China in 2016 was over 34 billion cubic metres, while Kazakhstan itself received more than one billion cubic metres.<sup>58</sup>

<sup>53</sup> Kuszniir and Stegen, “Outcomes and Strategies” (see note 49), 101.

<sup>54</sup> “Kazachstan i Kitaj sozdatut 51 sovmestnoe predpriyatie” [Kazakhstan and China set up five joint factories], *Kapital*, 5 September 2016, <https://kapital.kz/economic/53329/kazakhstan-i-kitaj-sozdatut-51-sovmestnoe-predpriyatie.html> (accessed 16 December 2016).

<sup>55</sup> Murat Sadykov, “Turkmenistan Supplying over Half of Chinese Gas Imports”, *Eurasianet*, 6 August 2013.

<sup>56</sup> Eric Watkins, “Uzbekneftegaz, CNPC form Asia Trans Gas Joint Venture”, *Oil & Gas Journal*, 14 April 2008.

<sup>57</sup> Konstantin Syroezhkin, “Kazachstan i Kitaj: analiz poslednich dogovorennostej” [Kazakhstan and China: analysis of recently concluded contracts], *Cabar*, 3 November 2016.

<sup>58</sup> See data from Ag Processing Inc (AGP), *Asia Gas Pipeline – Breakthrough Energy*, [http://www.agp.com.kz/?page\\_id=1298](http://www.agp.com.kz/?page_id=1298) (accessed 10 March 2017).

The second regional project initiated and promoted by China is the Shanghai Cooperation Organisation (SCO). It is important because it succeeded in establishing a stable multilateral forum in the field of non-traditional security through its choice of suitable bespoke topics and appropriate organizational form. While Uzbekistan has already twice left the Russian-dominated OVKS, it continues to be a member of the SCO without interruption. The SCO allowed China to succeed in testing and consolidating a Chinese leadership role in the region and, at the same time, involving Russia.<sup>59</sup> However, the SCO was not successful in every respect. In addition to traditional security, China tried to strengthen the economic dimension of the Organisation. This included promoting good bilateral relations between the Central Asian states. The Chinese government's proposals to set up an SCO free trade area were, however, rejected several times, albeit not as vehemently as before.

China's role is perceived differently among the populations and political elites of the Central Asian states. The inhabitants of Central Asia tend to display characteristics of both sinophobia and sinophilia. As it increasingly expanded its economic commitment, China also sought to increase its legitimacy in the region, primarily through study grants and language courses. Parts of the population are still suspicious of their new regional superpower.<sup>60</sup> Furthermore, attempts were made to exploit anti-Chinese sentiment to mobilize against the regime. Among the political elites of Central Asia, on the other hand, Chinese commitment is predominantly welcomed.<sup>61</sup> China's approach differed greatly from that of Russia. As an equally influential regional superpower, Russia attaches little importance to stronger intra-regional cooperation, but rather to post-hegemonial control.

In contrast, China is more interested in good neighbourly relations among the states.<sup>62</sup>

It is certainly the case that China's rise in Central Asia has given the country more power in the region. This has also increased the chances for diffusion processes. However, these are by no means automatic because they depend on a variety of other factors.<sup>63</sup>

<sup>59</sup> Stephen Aris, "The Shanghai Cooperation Organisation: 'Tackling the Three Evils'. A Regional Response to Non-traditional Security Challenges or an Anti-Western Bloc?", *Europe-Asia Studies* 61, no. 3 (2009): 57–482; Nadine Godehardt, *The Chinese Constitution of Central Asia. Regions and Intertwined Actors in International Relations* (Basingstoke, 2014), 98–127.

<sup>60</sup> Marlène Laruelle and Sébastien Peyrouse, *The Chinese Question in Central Asia. Domestic Order, Social Change, and the Chinese Factor* (London, 2012): 97–116.

<sup>61</sup> See also Martha Brill Olcott, *China's Unmatched Influence in Central Asia* (Washington, D.C.: Carnegie Endowment for International Peace, 18 September 2013), <http://carnegieendowment.org/2013/09/18/china-s-unmatched-influence-in-central-asia/gnky> (accessed 10 March 2017).

<sup>62</sup> Chinese experts have been highlighting this for some time, cf. Godehardt, *The Chinese Constitution of Central Asia* (see note 59).

<sup>63</sup> See the following two chapters.

# The Silk Road Initiative as an incentive for reform in Central Asia

The Belt and Road Initiative and its component relevant to Central Asia, the Silk Road Economic Belt, are important projects in which a variety of geostrategic practices and objectives are revealed. The initiative will not be comprehensively analyzed here. Rather, the focus is primarily on the plan to transport export goods by high-speed rail from China to Europe. As shown below, this is an incentive to change cooperative behavior as well as to stimulate and strengthen reforms.

The Belt and Road Initiative, including the SREB subproject, was presented in 2013. Although the proposal was initially vague, clear outlines are now emerging of the objectives and methods first set out in a strategy paper published in the spring of 2015. In addition, institutional structures and financing mechanisms have since been created and agreements concluded with partner countries and organizations.<sup>64</sup>

Belt and Road is not an integration initiative like the Eurasian Economic Union. As such, it would have no chance in Central Asia and would also lead to a confrontation with Russia.<sup>65</sup> Officially, the Chinese government refers to Belt and Road as an initiative. Beijing's choice of words is aimed at emphasizing openness and preventing any association with Chinese overpowerment or even restricting sovereign rights. The Chinese leadership expressly rejects frequently expressed suspicion that the aim of the project is to pursue its geopolitical ambitions. It is a "proposal for economic cooperation, not a tool of geopolitics". On the other hand, the term 'initiative' emphasizes that all partners must make considerable efforts. The initiative is "a unilateral move that requires willing cooperation from others who also have stakes in the provision of the public good".<sup>66</sup>

The routes through Central Asia are known as the western route, in contrast to the middle route, which crosses Mongolia and Russia to Europe. A complex network of fast routes would be established for the Central Asian Corridor, leading through all states except Tajikistan. The trains would need to cross many borders on their way to Europe. It is important that a variety of alternative routes are available within a corridor for economic and political reasons. Transport companies would require alternative routes in case of bottlenecks. If there are several alternative routes, this encourages competition between the states to transport as many goods as possible along their route. It might also have a positive effect on the diffusion of trade facilitation measures. In political terms, too, alternative routes are essential because they prevent a single country from gaining control over the entire infrastructure.

Kazakhstan forms the central point of the routes through Central Asia. It currently has the only rail link with China. Another alternative in Central Asia is the route through Kyrgyzstan and Uzbekistan, although the Kyrgyz section has not been built yet.

One of the planned high-speed routes leads from China to Uzbekistan via Kazakhstan. It runs from the Chinese-Kazakh border town of Khorgos via Almaty, along the south Kazakh border via Schymkent to Uzbekistan and, from there, to Afghanistan or via Turkmenistan to Iran,<sup>67</sup> along CAREC Corridors 1–3.

These future high-speed rail links will be part of international transport corridors. According to international standards, these are multimodal which means they not only need railways but also high-quality roads and other infrastructure, including logistics centres and hotels. Institutional infrastructure is also important and this applies to customs duties as well as to entry and residence regulations which ensure the free movement of goods and people.<sup>68</sup>

<sup>64</sup> Nadine Godehardt, *No End of History. A Chinese Alternative Concept of International Order?*, SWP Research Paper 2/2016 (Berlin: Stiftung Wissenschaft und Politik, January 2016), 18.

<sup>65</sup> Alexander Libman, "Linking the Silk Road Economic Belt and the Eurasian Economic Union: Mission Impossible?", *Caucasus International* 6, no. 1 (2016): 41–53.

<sup>66</sup> Xie Tao, "Is China's 'Belt and Road' a Strategy?", *The Diplomat*, 16 December 2015, <http://thediplomat.com/2015/12/is-chinas-belt-and-road-a-strategy/> (accessed 25 May 2017).

<sup>67</sup> China has already publicly tested train routes between China–Kazakhstan–Uzbekistan–Afghanistan and further via Turkmenistan to Iran.

<sup>68</sup> Kulipanova, *International Transport in Central Asia* (see note 30).

## Promoting institutions: economic openness, cooperation, border reforms

According to the Chinese National Development and Reform Commission (NDRC), the Silk Road Initiative is not limited to the technical implementation of infrastructure projects. Furthermore, in its policy paper, the Commission advocates certain guidelines and policies in Central Asia because it considers them important for the implementation of the initiative. They are part of “an ambitious economic vision of the opening-up of and cooperation among the countries along the Belt and Road”.<sup>69</sup> One can also interpret the Chinese Silk Road Initiative as an attempt to achieve a diffusion or transfer of institutions.<sup>70</sup>

The NDRC is of the opinion that it would be advisable for Central Asian countries to pursue a policy of economic openness. The Commission promises, above all, better conditions for trade and direct Chinese investment, an important element in China’s new economic policy strategy.<sup>71</sup> Should the Central Asian countries want to follow this model, this would mean a fundamental change in policy, especially for Uzbekistan. Kazakhstan, on the other hand, which has been strongly integrated into the world market since the early 1990s, would only have to further develop principles it has already implemented.

The NDRC also believes good intergovernmental cooperation, including political trust, is required for the Silk Road Initiative to be a success. This would apply not only to bilateral relations between China and its partner countries but also to relations among them. Unlike its comments on the openness policy, which it calls the ‘economic vision’, the Commission is clearer on this point: “The countries *should* cooperate more closely [...] and build political trust.” However, Uzbekistan would have to fundamentally change its

hitherto erratic cooperation behavior and show far more consideration for its partners. Kazakhstan, on the other hand, sometimes accepts drawbacks in order to maintain cooperation and is an advocate of multi-lateral approaches, as evidenced by its commitment to the EAEU. In addition, Kazakh experts emphasize that Uzbekistan, under Karimov, was seldom willing to sit down with others to find a solution to intergovernmental conflicts.<sup>72</sup>

The NDRC also indirectly addresses the issue of border reforms by calling for secure and efficient corridors and border crossings to be established.<sup>73</sup> In addition to technical factors, such as the modernization and construction of hard infrastructure as well as modern logistics and digitization of border processing, the Commission is referring, in particular, to institutions and administration. Here, China is likely to seek, first and foremost, efficient border management that works without corruption and competition between authorities, and ideally involves cooperation with its neighbours. Previous Chinese practice would indicate this does not mean opening up the borders or liberalizing its border entry arrangements. China still prioritizes the security aspects of border protection and entry. Cooperation at the border and reform of border authorities are considerable challenges for both Kazakhstan and Uzbekistan.

On the one hand, China still adheres to the principle of not interfering in the internal affairs of other countries. On the other hand, however, the country makes surprisingly broad demands on the partner countries of the Silk Road Initiative, namely economic openness, intergovernmental cooperation and institutional reforms. By advocating reform, China is highlighting policies in the partner countries that, in its view, are ideal for implementing the Belt and Road Initiative. Whether and how these reforms are implemented is the responsibility of the partner countries. A country that implements lots of reforms would, therefore, benefit more from the initiative while anti-reformists would be out of the game. This loose, voluntary approach is in line with official doctrine and, with some limitations, represents China’s practical approach to its foreign policy.

<sup>69</sup> National Development and Reform Commission (NDRC), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* (Beijing, 2015), 3, [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html) (accessed 2 December 2016).

<sup>70</sup> The term ‘institution’ should not be confused with that of the organization, in terms of political science it is understood to mean an ensemble of formal and informal rules and procedures, cf. definition on page 8 of the present Research Paper.

<sup>71</sup> Wang Yiwei, “One Belt, One Road: Die neuen Seidenstraßen. Eine chinesische Sicht”, *Welt Trends* 24, no. 116 (2016): 30–35 (30). Beijing will most likely favour transferring its own model to Central Asia. Accordingly, a gradual and partial economic opening up should take place, but strong social control and authoritarianism should be maintained.

<sup>72</sup> Interview with a policy expert, Astana, September 2016.

<sup>73</sup> “[...] a secure and efficient network of land, sea and air passages”, NDRC, *Vision and Actions* (see note 69), 4.

## SREB will not work without border management reforms

In order for goods to be transported quickly to Western countries within the framework of the initiative, the Central Asian countries will need to implement reforms. The plan would see roughly one percent of goods traded between China and Europe transported by rail across three corridors to Europe, the Middle East and Africa. To date, there have only been two modes of transport available: fast but expensive flights and slow but inexpensive shipments by sea. Such goods are suitable for rail transportation, whereby the compromises are higher prices than shipment by sea and longer despatch times than by air. This includes perishable products such as meat and fish products, grain and fruit, but also other goods, such as automobiles and wood.<sup>74</sup>

In a transitional period, China will subsidize exports in order to reduce transport and trading costs.<sup>75</sup> In the longer term, however, the process will only be worthwhile for the export industry and the logistics sector if the trains are able to travel the distance quickly enough for transport costs to be reduced considerably. Nevertheless, the problems of border management in Kazakhstan and Uzbekistan, particularly the long waiting times, are contrary to the requirements of the Chinese government. In its CR Express Building and Development Plan (2016–2020) from October 2015, the Chinese government has set out a maximum waiting period of six hours for customs formalities. In addition, some products are to be given preferential treatment.<sup>76</sup>

## Organizations and models of institutional transfer

China cooperates with expert organizations which call for introducing certain border management models. For example, the country is participating in the CAREC programme (see Box 1, p. 9), which has been promoting trade since 1997 and deals with issues relating to

### Box 2: The Trans-Eurasia-Express from Chongqing to Duisburg

There has been a high-speed route between China and Germany, running through Kazakhstan and Russia, since 2012. The Trans-Eurasia Express connects Chongqing in China with Duisburg in Germany. The trains take 18 days to travel the route.<sup>a</sup> The border crossing to Kazakhstan is at Khorgos.

This high-speed freight transit route is made possible by a technically modernized transshipment station, the standardized CIM/SMGS consignment note as well as simplified customs regulations which prevent long waiting times at the border, especially in Khorgos. According to local observers, informal agreements also simplify the procedure.<sup>b</sup> As a result, the project is sometimes referred to as a ‘secret weapon’ by international trade experts.<sup>c</sup>

**a** S. Frederick Starr, Svante E. Cornell and Nicklas Norling, *The EU, Central Asia, and the Development of Continental Transport and Trade*, Silk Road Paper (Washington, D.C., and Stockholm: December 2015), <https://silkroadstudies.org/resources/2015-starr-cornell-norling-eu-central-asia-continental-transport-and-trade.pdf> (accessed 8 December 2016).

**b** Interview with a local expert, Almaty, September 2016.

**c** Observation by the author at a trade conference in Almaty, September 2016.

border management. Its most important unit is the Customs Cooperation Committee. According to CAREC’s current strategy, the management of at least five border crossings should also include cooperation with neighbouring countries.<sup>77</sup> A particular feature of the organization is that it is not only responsible for transferring knowledge, but also implementing infrastructure projects and promoting corridor development.<sup>78</sup>

In addition to the CAREC programme, the Chinese government has also concluded new partnerships. In April 2014, Beijing and the United Nations Economic

<sup>74</sup> “CR Express Development Plan (2016–2020)”, 8 October 2016, <http://www.ndrc.gov.cn/zcfb/zcfbghwb/201610/P020161017547345656182.pdf> (accessed 9 November 2016).

<sup>75</sup> Ivan Zuenko, *Why China Subsidizes Loss-Making Rail Transport via Russia and Kazakhstan* (Moscow: Carnegie Moscow Center, 13 September 2016), <http://carnegie.ru/commentary/?fa=64555> (accessed 1 December 2016).

<sup>76</sup> Cf. “CR Express Development Plan” (see note 74).

<sup>77</sup> Only one of which is located in Central Asia. Telephone interview with a policy expert, Berlin, January 2017; see also ADB, *CAREC Transport and Trade Facilitation Strategy 2020* (Manila, 2014).

<sup>78</sup> The latest CAREC database contains 43 concluded and current projects in Kazakhstan (as of 2015) and 37 in Uzbekistan (as of 2017). See <http://www.carecprogram.org/index.php?page=kazakhstan-projects> and <http://www.carecprogram.org/index.php?page=uzbekistan-projects> (accessed 19 June 2017).

and Social Commission for Asia and the Pacific (UN ESCAP) formulated a joint declaration of intent.<sup>79</sup> China has also concluded a cooperation agreement with its sister organization, the United Nations Economic Commission for Europe (UNECE). These partnerships are aimed at increasing transport security and facilitating trade. As part of its cooperation with UNECE, China has also joined the TIR Convention.<sup>80</sup> These agreements are intended to explicitly support the Belt and Road Initiative. Among other things, the partners are committed to promoting trade facilitation and paperless cross-border trade. The UN's two regional economic and social commissions have been actively promoting trade and border-crossing facilitation for decades. They are responsible for a number of standards and international agreements, such as the TIR system. Kazakhstan and Uzbekistan are members of both organizations.

The highest decision-making body of the UNECE is the Inland Transport Committee (ITC). Its main task is to facilitate cross-border trade. It is also responsible for customs duties and border management. In addition, UN ESCAP and UNECE are calling for implementation of the World Trade Organization's Trade Facilitation Agreement (TFA). Its objective is to harmonize customs clearance, to ensure greater transparency at the borders, to promote cooperation between customs authorities and combat corruption.

In 1982, the UNECE paved the way for the International Convention on the Harmonization of Frontier Controls of Goods, the aim of which was to better coordinate the work of customs authorities and other governmental bodies.<sup>81</sup> The Convention came into force in 1985 and was amended twice. Annex 9, which

defines standards for the facilitation of border crossing procedures for international rail freight, was adopted in 2011. It also recommends using the standardized CIM/SMGS consignment note which combines the standards of Western and Eastern rail organizations.<sup>82</sup>

These international standards are implemented in the Coordinated Border Management (CBM) model which is favoured by UNECE and other organizations.<sup>83</sup> CBM works on two levels: Internally, it promotes better coordination between all national authorities involved in border management. In addition to customs and security authorities, these often include veterinary and sanitary control institutions. At the intergovernmental level, the model provides for regulated and formalized cooperation between neighbouring countries at their respective borders. The key elements of this intergovernmental cooperation are communication and exchange of information.

The implementation of CBM, therefore, presupposes domestic reforms and intergovernmental cooperation. In this way, customs formalities can be processed much more quickly. For example, New Zealand has been able to reduce its average clearance time from 240 to 0.2 hours and Costa Rica from 144 to 0.2–1.9 hours.<sup>84</sup> There are also examples of intergovernmental cooperation on the borders of the CAREC Corridors. The Chinese and Mongolian authorities are planning to intensify their cooperation on Corridor 4. The two customs authorities are currently preparing a pilot phase for joint customs controls and the use of a joint electronic procedure. Customs processing has already been simplified and transit times have been reduced considerably.<sup>85</sup> In addition, the Chinese customs authorities have concluded agreements with Tajikistan and Kyr-

<sup>79</sup> "China-UNESCAP Deal to Boost Belt and Road Initiative Cooperation", *China Daily*, 12 April 2016.

<sup>80</sup> UNECE, "UNECE and China to Cooperate to Help Countries Participating in the 'One Belt One Road' Initiative to Implement PPP Projects" (Geneva, 21 December 2016), <http://www.unece.org/info/media/presscurrent-press-h/general-unece/2016/unece-and-china-to-cooperate-to-help-countries-participating-in-the-one-belt-one-road-initiative-to-implement-ppp-projects/doc.html> (accessed 21 July 2017); UNECE, "Statement by Mr. Christian Friis Bach, United Nations Under-Secretary-General, Executive Secretary of the United Nations Economic Commission for Europe, at 'Belt and Road' Forum for International Cooperation Session on Connectivity of Development Policies and Strategies" (Beijing, 14 May 2017), [http://www.unece.org/fileadmin/DAM/Speech\\_14\\_May\\_2017\\_final\\_Beijing.pdf](http://www.unece.org/fileadmin/DAM/Speech_14_May_2017_final_Beijing.pdf) (accessed 21 July 2017).

<sup>81</sup> UNECE, *International Convention on the Harmonization of Frontier Controls of Goods* (Geneva, 21 October 1982). Uzbekistan joined the convention in 1996, Kazakhstan in 2005.

<sup>82</sup> The CIM/SMGS consignment note is based on the Agreement on International Freight Traffic by Rail between the 'western' International Union of Railways and 'eastern' Organisation for Cooperation of Railways.

<sup>83</sup> Another programme with which the UN is promoting cooperation between neighbouring countries is the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024. Kazakhstan and Uzbekistan are partner countries in this programme.

<sup>84</sup> UNECE, *Spectrum of Border Crossing Facilitation Activities 2015* (New York, 2015), 10, [http://www.unece.org/fileadmin/DAM/trans/bcf/publications/Spectrum\\_of\\_Border\\_Crossing\\_Facilitations\\_Activities.pdf](http://www.unece.org/fileadmin/DAM/trans/bcf/publications/Spectrum_of_Border_Crossing_Facilitations_Activities.pdf) (accessed 6 January 2017).

<sup>85</sup> ADB, *CAREC Corridor Performance Measurement & Monitoring. Annual Report 2015* (Manila, 2015), iv–1, <http://www.carecprogram.org/uploads/docs/CAREC-Publications/2015-CAREC-CPMM-Annual-Report.pdf> (accessed 8 December 2016).

gyzstan in order to get perishable goods across the border more quickly.<sup>86</sup>

Intergovernmental cooperation in a sensitive area such as border management requires a culture of trust between the states in question. It is particularly important to establish functioning communication and to adhere to contracts and agreements. However, Uzbekistan's foreign policy practice has, up to now, always been a stumbling block.

### **Incentives for reform: financial incentives, arguments – but also coercion?**

China is promoting and, at the same time, demanding institutional change from its partners in the Silk Road Initiative. To this end, the Beijing government is co-operating with expert organizations that provide internationally recognized models for border reforms. But what additional reform incentives has China offered Kazakhstan and Uzbekistan?

First and foremost, these are financial incentives. China's partners are rewarded for their participation in the Silk Road Initiative with considerable loans to construct and modernize their transport infrastructure. However, not all current projects such as roads, railways and ports are financed by China. The partner countries themselves and international development banks are also participating. The Belt and Road Initiative is, therefore, very different from the usual development policy programmes. Although China also appears to be a major investor in the partner countries of the initiative, the infrastructure projects are predominantly financed by loans (see also the chapter on border reforms in Central Asia, pp. 24). The Chinese loans are important because most of the countries have neither the equity nor access to credit for larger infrastructure projects. For this reason, projects such as the Silk Road Initiative are doubly interesting for the Central Asian countries. Firstly, they are small stimulus packages in times of economic crisis; secondly, the modernized transport routes benefit the countries' domestic trade and export strategies. However, the loans are not tied to conditions such as reforms. They, therefore, only indirectly act as a mechanism for institutional transfer. Loans and possibly a partial waiver of future repayments might increase China's prestige as a superpower and promote loyalty from the political elite and population towards China. This

also applies to investments made by China as part of the Initiative.

The situation with transit fees is different. Partner countries receive such fees when export goods are transported across their territory. Unlike loans and investments, however, the countries can only generate permanent transit fees if they have competitive transit corridors. This presupposes reform of border administration. Ideally, even competition between the different corridor routes could lead to the spread of best practices in modernizing the borders. However, the transit fees alone will not be so high to act as an incentive to undertake difficult and painful reforms just to obtain them. This applies all the more to Central Asia as it is already clear that, in the short and medium terms, Kazakhstan will receive the most transit fees from the Central Asian corridor. As an incentive, the chances of additional income being generated from the transit of goods are more significant. These mainly include operating dry ports and other loading centres, as well as developing economic hubs. These additional logistical services not only generate large revenues, they also create jobs.

Furthermore, China is promoting other benefits resulting from participation in the Silk Road Initiative. Beijing's main argument is that trade between the partner countries can also flourish. In fact, trade facilitation can promote cross-border trade and, therefore, generate economic growth. However, the prerequisite for this is a competitive export industry. The example of the Eurasian Economic Union shows that merely reducing trade restrictions does not automatically increase trade. Although it has dwindled mainly due to Russia's economic crisis, it has also stagnated between other members of the EAEU, such as Kazakhstan and Belarus.

There are currently potential mechanisms for an institutional transfer between China and Central Asia: financial incentives, rational arguments and attempts to generate loyalty. Conditions for lending and investment were not stipulated. With this approach, China remains faithful to its foreign policy line which is clearly different from that of Western development policy.<sup>87</sup>

Since, to date, China has only tried to influence its partner countries with soft power, the question arises as to how far China might also try to coerce states into implementing reforms. Indirect compulsory measures against other states have long been part of China's

<sup>86</sup> Ibid., 24.

<sup>87</sup> Cf. Godehardt, *No End of History* (see note 64).

repertoire when it comes to foreign policy. A recent example is the dispute over the new missile defence system in South Korea. Officially, it is directed at North Korea, but China has also openly rejected it. After South Korea put the system into operation, the number of Chinese tourists in South Korea fell sharply by 40 percent. Since tourism is an important economic factor in South Korea, the country is clearly feeling the decline. Officially, China is not implementing any forced measures because of the rocket defence system, but the context is clearly highlighted in the South Korean discourse.<sup>88</sup> However, it is not yet known if China has used such measures to force institutional change. The measures are, at any rate, likely to be counterproductive. The extent to which China is able to force reform depends on numerous contextual factors. This includes the extent to which the Central Asian countries themselves can harm China and the extent to which Russia could use the conflict to position itself more strongly in the region.

<sup>88</sup> Alec Macfarlane, “China Is Crushing South Korea’s Tourism Industry”, *CNN Money*, 26 April 2017, <http://money.cnn.com/2017/04/26/news/chinese-tourism-south-korea/index.html> (accessed 22 May 2017).



## Border reforms in Central Asia: probably but no guarantee of success

In the previous two chapters, it was argued that the Silk Road Economic Belt, combined with current domestic and foreign policy developments, has the potential to influence domestic policy in Kazakhstan and Uzbekistan. On the one hand, it could serve as an incentive where reforms have not yet been implemented, such as border management and, on the other hand, as a catalyst where conversion processes are already being observed, for example in Uzbekistan's attitude to cooperation. Modern border management not only requires domestic policy reforms at the border but also in all authorities involved in border management. There is also a need for intergovernmental cooperation between neighbouring countries, which, for example, would make duplicating checks superfluous. The routes for high-speed freight transport to Europe by rail and road are components of the international transport corridors. The rail and road border crossings between Kazakhstan and Uzbekistan are sometimes heavily frequented. The CAREC Corridor 2 is important for importing and exporting to and from Central Asia. There is heavy rail traffic between Kazakhstan and Uzbekistan on CAREC Corridors 3 and 6.<sup>89</sup>

In both countries, the organization of border management is more of an obstacle to trade facilitation. Waiting times for clearance at the border are long and the border administration authorities often demand bribes.

The Corridor Performance Measurement and Monitoring report by CAREC is the best survey of waiting time at the borders. Instead of using sampling or expert surveys, CAREC regularly monitors traffic flows in cooperation with logistics companies. These surveys found that delays in border clearance have actually increased. According to experts, these increasing waiting times are now the main problem of transporting in Central Asia, even before transport costs are considered.<sup>90</sup>

There are currently no data on border crossings between Uzbekistan and Kazakhstan. However, the average waiting time of 54 hours at the Kazakh-

Chinese border suggests that countries in the region generally have great difficulties in processing clearance. One exception is the Trans-Eurasia-Express from Chongqing to Duisburg, to which simplified customs conditions apply. In contrast, waiting times at Kazakh-Uzbek border crossings for lorries en route from Kazakhstan to Uzbekistan have fallen slightly since 2010. In 2011, lorries had to wait an average of 10.3 and 11.0 hours respectively at the Tazhen and Konysbayeva crossings, while in 2015 it was less than eight hours. Uzbekistan was also able to reduce average waiting times at two Uzbek-Kazakh border crossings: from 12.8 to 8.9 hours in Dautota and 9.5 to 6.4 hours in Yallama.<sup>91</sup>

**Table 4**  
**Border crossings between Kazakhstan and Uzbekistan**

CAREC Corridor	Kazakhstan	Uzbekistan
2a, 6a	Beyneu (rail) Tazhen (road)	Karakalpakstan/ Dautota (rail and road)
3a, 6b, 6c	Zhibek Zholy (rail) Yallama (rail) Saryagash (road) Konysbayeva (road)	Keles (rail) Gisht Kuprik (road)

Demanding bribes is a persistent problem. The data obtained from investigations do not initially give a particularly dramatic picture. According to a survey by CAREC, the probability of having to pay bribes at the border is 26 percent for customs inspections and 20 percent for security controls.<sup>92</sup> On CAREC Corridor 6, which runs through Uzbekistan and Kazakhstan, drivers were asked to pay an average of \$20. In another study, export firms put the payment of bribes in tenth place among all informal barriers to regional trade.<sup>93</sup>

<sup>91</sup> ADB, *CAREC Corridor Performance* (see note 85), 42.

<sup>92</sup> Ibid., 15ff.

<sup>93</sup> Roman Vakulchuk and Farrukh Irnazarov, *Analysis of Informal Obstacles to Cross-border Economic Activity in Kazakhstan and Uzbekistan*, ADB Working Paper Series on Regional Economic Integration, no. 130 (Manila, May 2014), 10, <http://www.adb.org/sites/default/files/publication/42485/reiwp-130>

<sup>89</sup> ADB, *CAREC Corridor Performance* (see note 85), 49.

<sup>90</sup> Speech by Wolfgang Fengler (World Bank), USAID Trade Conference, Almaty, September 2016.

There are, however, a number of reasons that this problem is, in fact, more serious and therefore compromises reforms and the functioning of the Silk Road Economic Belt more heavily than the surveys suggest.<sup>94</sup> Firstly, CAREC determines the amounts solely by asking the drivers. Freight companies importing and exporting on a larger scale are not included but their payments are likely to be much higher.<sup>95</sup> Regional traders and exporters are also not likely to classify the problem as too serious because they know the system of informal payments well and they can be recovered through the selling price. The system requires a lot of detailed knowledge and offers regional traders and exporters a comparative advantage over external competitors who would not be familiar with the intricacies. The system also has a deterrent effect because foreign companies are wary of being prosecuted in Western countries.<sup>96</sup>

According to the CAREC report, border management problems are 'deeply rooted'.<sup>97</sup> There are several structural reasons for this. One of them is the regime's heightened need for security which is the result of its patrimonial-authoritarian rule. The regimes are particularly exposed to non-traditional security threats, such as terrorism and drug trafficking. The greatest danger, however, is from potential domestic opponents. This is why the regimes strive to effectively

control society, which includes restrictive surveillance of its borders, and this is why secret services or quasi-military authorities are responsible for it. In Kazakhstan, this is the National Security Committee of the Republic of Kazakhstan (NSC) which also organizes the activities of all other authorities involved in border management, such as the customs authorities, veterinary and food inspectors. The Uzbek counterpart to the NSC is the Committee for State Border Protection which is under the control of the influential National Security Service. It coordinates the work of other relevant authorities, in particular the customs authorities.<sup>98</sup>

An additional structural factor is corruption and competition between the authorities. These have a strong interest in maintaining the status quo because of the high income from bribes. This includes, for example, maintaining what are known as administrative barriers which provide an incentive for corruption.<sup>99</sup> The situation in Uzbekistan is particularly problematic. There are no administrative regulations which would allow for a transparent and uniform interpretation of customs legislation. As a result, the individual border authorities issue their own rules. To reduce administrative barriers, it might be useful to introduce a risk management system. This would mean that not all imported goods would need to be checked, only those classified as hazardous. However, competition between the national authorities is likely to make it difficult to harmonize and expedite procedures with better coordination.<sup>100</sup>

Overall, the initial conditions for reforms in both countries are quite different. Improving border management would be a considerable challenge for both. To achieve inter-governmental cooperation at the borders, Uzbekistan would have to meet many more requirements than Kazakhstan. Although Kazakhstan has not so far been keen on such cooperation, it has developed a basic culture of cooperation that pro-

cross-border-economic-activity-kazakhstan-uzbekistan.pdf (accessed 9 December 2016).

<sup>94</sup> "Ėksperty: Na granicakh Kazachstana carjat bezzakonie I korrupcija" [Experts: lawlessness and corruption rife at Kazakhstan's borders], *Nur.kz*, 24 October 2016, <http://www.nur.kz/1292921-eksperty-na-granicakh-kazachstana-carya.html> (accessed 10 December 2016); Nick Megoran, Gaël Raballand and Jerome Bouyjou, "Performance, Representation and the Economics of Border Control in Uzbekistan", *Geopolitics* 10, no. 4 (2005): 712–40.

<sup>95</sup> According to information given by logistics firms, a lorry has to pay between \$150 and \$350 to pass over the border (Interview, Almaty, September 2016). This problem is recognized by international programmes, such as CAREC, but is very difficult to research. ADB, *Central Asia Regional Economic Cooperation Corridor Performance Measurement and Monitoring: A Forward-Looking Retrospective* (Manila, 2014), <http://www.adb.org/sites/default/files/publication/148731/carec-cpmm-forward-looking-retrospective.pdf> (accessed 8 December 2016).

<sup>96</sup> VimpelCom had to pay a fine of \$835 million to the US and Dutch authorities for corruption in Kazakhstan to avoid having to pay further fines. "VimpelCom Pays \$835m to US and Dutch over Uzbekistan Telecoms Bribes", *The Guardian*, 16 February 2016, <http://www.theguardian.com/world/2016/feb/19/vimpelcom-pays-835m-to-us-and-dutch-over-uzbekistan-telecoms-bribes> (accessed 24 October 2016).

<sup>97</sup> CAREC, *Corridor Performance* (see note 85), 15.

<sup>98</sup> UN ESCAP, *Improving Border Management to Facilitate Trade in SPECA: Challenges and Prospects* (Bangkok, 2010).

<sup>99</sup> Administrative barriers have the effect of making state administration services very difficult to receive or only by bypassing official procedures or with considerable waiting times. Paying bribes allows firms to overcome these hurdles. See also Z. Turisbekov and Zh. Dzhandosova, *Administrativnye bar'ery kak istochnik korrupcionnykh pravonarushenij v sfere gossluzhby* [Administrative barriers as source of corruption for civil service] (Almaty, 2007).

<sup>100</sup> ADB, *Uzbekistan: Trade Facilitation and Logistics Development Strategy Report* (Manila, 2009), 20.

motes mutual trust and has proven to be reliable. Uzbekistan is yet to achieve this.

## Interests and incentives

How have Kazakhstan and Uzbekistan reacted to the Silk Road Initiative? What interests in participation and incentives for reform can be identified? There are clear differences on all scores between the two countries.

The Silk Road Initiative is in line with the strategies of both countries to develop their export economy. Modernized transport routes also reduce transport costs for Central Asian countries. This not only facilitates important imports from China but also improves access to old and new export markets. Above all, access to Iran and Turkey, but also to southern Asian countries, is of interest to Kazakhstan and Uzbekistan. Kazakhstan has so far primarily exported natural resources. Due to low oil prices, however, the government has restarted attempts to strengthen its manufacturing and exporting industry. Uzbekistan has been able to maintain and expand its manufacturing industry. Its export products include cars, textiles and agricultural products.

Kazakhstan and Uzbekistan currently benefit a great deal from Chinese loans which make the implementation of large infrastructure projects possible. These include new construction projects and modernizing the roads and railways. Given shrinking public budgets and a fundamental shortage of investors, these projects are welcome as they have the effect of small economic stimulus packages in view of empty coffers. High-quality roads and railways also benefit the local economy. In this way, they can help give the regimes more legitimacy.

The largest ever infrastructure project financed by China in Central Asia was completed in Uzbekistan in 2016. The 19-kilometre-long Kamchiq tunnel was built along the Angren-Pop railway line, which is to be part of the planned SREB link between China and Kyrgyzstan, at a cost of \$455 million.<sup>101</sup> Uzbekistan's President Shavkat Mirziyoyev wooed Chinese high-tech investors on a five-day trip to China in May 2017.<sup>102</sup>

<sup>101</sup> "Uzbekistan & China: Friends in a Time of Need", *Eurasianet*, 23 June 2016, <http://www.eurasianet.org/node/79381> (accessed 18 October 2016).

<sup>102</sup> "Uzbekistan: President in Pursuit of Big Deals in China during 5-Day Visit", *Eurasianet*, 11 May 2017, <http://www.eurasianet.org/node/83541> (accessed 22 May 2017).

China also finances major infrastructure projects in Kazakhstan. The most prominent and visible of these is the International Transit Corridor Western Europe–Western China, which is the current CAREC Corridor 1b. This is explicitly about the expansion of transit capacities through Kazakhstan as part of the Silk Road Economic Belt.<sup>103</sup> Transport routes between Uzbekistan and Kazakhstan are also being modernized. On the Kazakh side, the focus is mainly on road connections to Uzbekistan.<sup>104</sup>

The fact that both countries have launched their own programmes and financed projects themselves shows they are very interested in modernizing their transport routes.<sup>105</sup> There are currently 15 major projects in Uzbekistan involving several investors. Seven of these projects are fully funded from their own resources. Kazakhstan, on the other hand, has officially launched its infrastructure development programme (Nurly Zhol) in line with the Chinese Belt and Road Initiative and has even implemented and funded 16 infrastructure projects itself. These include a Kazakh terminal in the port of the eastern Chinese city of Lianyungang.

However, both countries are deriving very different benefits from the Initiative in the short and medium terms. Kazakhstan is China's preferred partner in Central Asia and enjoys numerous benefits from high-speed freight transit and beyond. It has, therefore, benefited directly from the transit fees. Not only do most of the corridors lead through the country, but so does the only high-speed connection from China to Europe already in operation. As early as 2007, these fees accounted for 17 percent of total revenue of the state-owned Temir Zholy Group.<sup>106</sup> Kazakhstan not only generates income from the transit fees but also from loading containers at dry ports and operating the state-owned logistics company KazTrans. Experts hope that many tens of thousands of jobs would be created from this positive development in container

<sup>103</sup> However, Kazakhstan has been pursuing this project since 2007, cf. Kulipanova, *International Transport in Central Asia* (see note 30), 20.

<sup>104</sup> This is financed by a consortium of international development banks, ADB, EBRD, the World Bank and others.

<sup>105</sup> The following data comes from the Reconnecting Asia database at the Center for Strategic and International Studies (CSIS), <https://reconnectingasia.csis.org> (accessed 12 January 2017).

<sup>106</sup> Kulipanova, *International Transport in Central Asia* (see note 30), 10.

transport.<sup>107</sup> Freight transport between China and Europe via Kazakhstan doubled between 2012 and 2014 and recently totalled 91,500 tonnes.<sup>108</sup> In the first nine months of 2016, 565 trains each with 50 to 80 wagons travelled the China–Europe route. By 2020, the government is forecasting that 800,000 containers will be transported along the China–Europe route, up to 300,000 containers on the Silkwind route via the Caspian Sea and up to 400,000 containers on the routes toward Iran.<sup>109</sup>

Kazakhstan can also expect substantial investment from China. As mentioned, the most recent investment partnership was sealed in September 2016. Beijing and Astana decided to transfer 51 factories from China to Kazakhstan. The investment volume is \$26 billion.<sup>110</sup> In addition to logistics and industry, investments are being made in the agricultural sector as well as research and technology. A Kazakh expert on China estimates there are currently agreements on Chinese investments worth \$70.6 billion.<sup>111</sup> Although it is unlikely that these arrangements will be fully implemented, but even if only part of it is realized, this does not diminish China's prominent role in meeting Kazakhstan's search for international investors.

It does not follow that reforms will inevitably be initiated from the shared interests and incentives. The Silk Road Initiative contains mainly soft mechanisms of institution transfer. Officially, there are no conditions or compulsory measures. Nor would they make reforms more probable. Since Kazakhstan would benefit more from the Silk Road Initiative than Uzbekistan, the incentives for reform are more clearly identifiable here. However, it is clear that the already considerable importance of China in Central Asia will

continue to grow due to the Silk Road Initiative. The infrastructure projects funded by China are clearly related to the further development of transport corridors so it is now hard to believe that the Central Asian states would completely shut themselves off to reforms and would, therefore, withdraw cooperation from the Belt and Road Initiative. Rather, the question is what kinds of reforms will they implement and how?

## Observable change

What changes can be observed in patterns of inter-governmental cooperation and in border management? Uzbekistan's new President Mirziyoyev has promised both far-reaching domestic reforms and a 'regional re-launch'. The proposed domestic policy measures include fundamental steps, such as floating the exchange rate and currency convertibility, removing travel restrictions on Uzbek citizens and permanently allowing foreigners from certain countries to enter without a visa.

These reforms will probably be difficult and protracted. However, Mirziyoyev also launched numerous innovations in the first six months of his term and public discourse has already changed as a result. Mirziyoyev himself has criticized the state for functioning poorly and he also allows negative headlines, including a survey which found that a large proportion of respondents are highly dissatisfied that basic needs are not being met.<sup>112</sup> Another example is his handling of Uzbek migrant workers in Russia. Although they were urgently needed in their country of origin, Karimov left the migrants to their own devices and the problem was silenced. However, in July 2017 the Ministry of Employment and Labour Relations recognized how important the migrant workers were for the country and began formalizing and regulating migrant workers travelling to Russia.<sup>113</sup>

Mirziyoyev also wants to improve Uzbekistan's once hostile relations with Kyrgyzstan and Tajikistan and further develop relations with these countries. On 22 December 2016, just a week after Mirziyoyev started his term, the Uzbekistan and Kazakhstan signed a

<sup>107</sup> Evgeny Vinokurov, *Transport Corridors of the Silk Road Economic Belt across the Eurasian Economic Union: Preliminary Estimates for Transportation Capacity and Investment Needs*, Working Paper (28 April 2016).

<sup>108</sup> Ardak Bukeeva, "Kak Kazakhstan razvivaet tranzit iz Kitaja i chto emu meshaet" [How Kazakhstan is developing a transit from China and what is getting the way], *Forbes Kazakhstan*, 4 January 2017, [http://forbes.kz/finances/markets/popast\\_vkoleyu\\_1/](http://forbes.kz/finances/markets/popast_vkoleyu_1/) (accessed 6 January 2017).

<sup>109</sup> Ardak Bukeeva, "Kak Kazakhstan budet zarabatyvat' na Novom Shëlkovom puti" [What sources of income will Kazakhstan have on the New Silk Road], *Forbes Kazakhstan*, 8 November 2016, [http://forbes.kz//finances/markets/kak\\_kazakhstan\\_budet\\_zarabatyivat\\_na\\_novom\\_shelkovom\\_puti/?utm\\_source=forbes&utm\\_medium=incut&utm\\_campaign=126291](http://forbes.kz//finances/markets/kak_kazakhstan_budet_zarabatyivat_na_novom_shelkovom_puti/?utm_source=forbes&utm_medium=incut&utm_campaign=126291) (accessed 6 January 2017).

<sup>110</sup> "Kazakhstan i Kitaj sozdadut 51 sovmetstnoe predpriyatie" (see note 54).

<sup>111</sup> Syroezhkin, "Kazakhstan i Kitaj" (see note 57).

<sup>112</sup> "Uzbekistan: Unusually Frank Poll Highlights Unhappiness", *Eurasianet*, 13 July 2017, <http://www.eurasianet.org/node/84351> (accessed 27 July 2017).

<sup>113</sup> "Nachata organizovannaja otpravka trudovykh migrantov v Rossiyu" [The organised deployment of migrant workers to Russia has begun], *Gazeta.uz*, 27 July 2017, <http://www.gazeta.uz/ru/2017/07/27/work/> (accessed 27 July 2017).

trade policy agreement and are currently preparing a roadmap for further cooperation.<sup>114</sup> It was also decided to accelerate border processing.<sup>115</sup>

Political innovations by presidents that have recently come to power must certainly be considered critically. Far-reaching promises can also serve primarily as a means of gaining support and legitimacy, but then later simply prove to be unachievable. It is, therefore, worth looking back a few years. Although in the last few years of Islom Karimov's rule, Uzbekistan did not turn away from its protectionist foreign and economic policy, there was a slight, moderate shift in his attitude to cooperation. Should Mirziyoyev stick to his plan to push through change, he can start here.

Changes to relations between Kazakhstan and Uzbekistan, which began in 2010, can be traced back to a cautious policy of openness by Tashkent and an increase in interactions. That Presidents Karimov and Nazarbayev met more frequently from 2010 played an important role, whereas previously this had only occurred sporadically in the first two decades after independence. This rapprochement at the highest level resulted in symbolic accentuation, but also in some initiatives at the working level.

This period of rapprochement between the two presidents resulted in a strategic partnership in 2013 which was praised in both countries as an expression of a 'new level of cooperation'. Local experts also considered the new strategy a 'significant development'.<sup>116</sup> Karimov mainly emphasized the economic dimension of the partnership, while Nazarbayev highlighted the potential benefits of improved cooperation for the whole region.<sup>117</sup> In the same year, Kazakhstan opened a new embassy building in Tashkent. It had a represen-

tative character and was built in oriental style, reminiscent of Uzbekistan.<sup>118</sup>

The Joint Intergovernmental Commission is the most important instrument for cooperation between the two countries. Although it has existed since the 1990s, observers ascribed an increasingly important role to Commission meetings. However, the content and results of these discussions were generally intransparent. According to one trade expert, they are often a matter of very specific questions on trade. For example, at the 15th Commission meeting in March 2015, it was decided that Uzbekistan would cut import duties on confectionery and meat products from 2020 onwards.<sup>119</sup> According to official information, in addition to trading issues, matters concerning road, rail and air transport infrastructure are also on the agenda.<sup>120</sup> Alongside the Intergovernmental Commission, other interstate commissions, such as border demarcation, have also started or intensified their work.

These shifts in policy took place against a background of changing economic relations. The volume of trade between the two countries rose fourfold between 2005 and 2013. As a result, Kazakhstan became Uzbekistan's third most important trading partner with 12 percent of its total volume of foreign trade.

Investments also increased slightly. In 2016, there were over 600 companies registered in Kazakhstan with Uzbek participation; 431 of these companies were established between 2010 and 2016. In 2015, companies from the two countries signed contracts

**114** "Kazachstan i Uzbekistan razrabatyvajut Dorozhnyu kartu sotrudnichestva na desjatiletnjuju perspektivu" [Kazakhstan and Uzbekistan devise a roadmap for cooperation over the next ten years], *Novosti Uzbekistana*, 3 January 2017, <http://nuz.uz/politika/19246-kazahstan-i-uzbekistan-razrabatyvayut-dorozhnyu-kartu-sotrudnichestva-na-desjatiletnyuyu-perspektivu.html> (accessed 7 January 2017).

**115** "Uzbekistan i Kazachstan rabotajut nad uproscheniem peresechenija granicy" [Uzbekistan and Kazakhstan work to simplify border crossing], *Gazeta.uz*, 26 December 2016, <http://www.gazeta.uz/ru/2016/12/26/kz> (accessed 7 January 2017).

**116** Ibid.

**117** "Uzbekistan i Kazachstan podpisali Dogovor o strategicheskom partnerstve" [Uzbekistan and Kazakhstan sign agreement on strategic partnership], *Gazeta.uz*, 14 June 2013, <http://www.gazeta.uz/2013/06/14/visit/> (accessed 11 August 2016).

**118** "Pamjatnik Abaju i novoe posol'stvo Kazachstana otkryty v Tashkente" [A memorial for Abaj and a new embassy building unveiled in Tashkent], *Tengrinews*, 14 June 2013, <https://tengrinews.kz/sng/pamyatnik-abayu-novoe-posolstvo-kazahstana-otkryity-236195/>. In contrast, the area reserved for Uzbekistan in Astana, the capital since 1997, is still undeveloped. Uzbekistan is, therefore, the only country whose embassy is located in the former capital, Almaty.

**119** "Uzbekistan snizit akcizy na kazachstanskije konditerskie izdelija i mjaso k 2020 godu" [Uzbekistan to reduce duties on Kazakh confectionary and meat by 2020], *Kazinform*, 11 March 2016, [http://www.kazinform.kz/ru/uzbekistan-snizit-akcizy-na-kazahstanskije-konditerskie-izdeliya-i-myaso-k-2020-godu\\_a2879913](http://www.kazinform.kz/ru/uzbekistan-snizit-akcizy-na-kazahstanskije-konditerskie-izdeliya-i-myaso-k-2020-godu_a2879913) (accessed 10 December 2016).

**120** "Kazachstan i Uzbekistan obsuzhdajut rasshrenie nomenklatury vzaimno postavljajemych tovarov" [Kazakhstan and Uzbekistan discuss expanding the list of traded goods], *Kazakhstan Today*, 11 March 2016, [http://www.kt.kz/rus/politics/kazahstan\\_i\\_uzbekistan\\_obsuzhdajut\\_rasshrenie\\_nomenklatury\\_vzaimno\\_pstavljajemyh\\_tovarov\\_1153618046.html](http://www.kt.kz/rus/politics/kazahstan_i_uzbekistan_obsuzhdajut_rasshrenie_nomenklatury_vzaimno_pstavljajemyh_tovarov_1153618046.html) (accessed 10 December 2016).

worth \$27 million.<sup>121</sup> However, the majority of these companies are micro-entities; only eight have more than 150 employees. The three largest companies are involved in railway logistics, construction and metal processing.<sup>122</sup> In 2016, only 206 companies in Uzbekistan were operated with Kazakh capital.<sup>123</sup> But investing in Uzbekistan remains a high-risk business, as one Kazakh investor put it.<sup>124</sup> Furthermore, the number of Uzbek migrant workers in Kazakhstan almost doubled from 404,468 to 797,982 between 2011 and 2015.<sup>125</sup>

It is worth noting that Kazakhstan and Uzbekistan have jointly announced plans to reform their borders and cooperate more on border management.<sup>126</sup> In particular, Kazakhstan has promised far-reaching reforms of state institutions. In May 2015, President Nazarbayev presented his '100 concrete steps to implementing five institutional reforms' programme aimed at remedying serious state shortcomings. The main thrust of the programme is already clear in the first two of the five points. They are about 'developing a professional state apparatus' and 'strengthening the rule of law'. This includes customs reforms and, among other things, the introduction of a 'single-window' system. This is intended to enable importing and exporting companies to manage all administrative matters in one place, so they do not have to communicate with several authorities. However, Kazakhstan has been trying to reform its state apparatus since 1997, with varying results. The country was particularly unsuccessful in combating its systemic corruption.

The timing of the new programme is particularly striking. It can be interpreted as a signal to China which announced its first Belt and Road strategy two

months earlier in March 2015. The fact that state reforms are highlighted in the programme is also likely to be symbolic.<sup>127</sup>

Uzbekistan also submitted an action plan in the spring of 2017. It has five priorities that are very similar to the five institutional reforms in Kazakhstan's 100 Steps strategy. The first two priorities concern the development of the state, the rule of law and the judiciary, followed by economic liberalization, social protection and security.<sup>128</sup>

Nevertheless, the border reforms are still limited to announcements. This shows how difficult reform can be. International indices which measure logistics performance do not suggest any improvement so far. Kazakhstan has since moved up the Logistics Performance Index, however, this is not due to changes in border management but other factors. Kazakh media and local experts are still painting a gloomy picture of reality at the country's borders. At the end of 2016, it was described as 'corrupt and lawless' in an online portal close to the government.<sup>129</sup>

It is true that the main causes of this change can be found in both domestic and regional dynamics (see chapter Context, pp. 11). Nevertheless, it seems to be taking a direction that also benefits the Silk Road Initiative, that is towards more cooperation and border reforms. The experience of good cooperation in other areas is the prerequisite for trusting cooperation in the sensitive area of border management. However, recent developments also point to links between reforms or reform announcements and the New Silk Road. One indication of this is that Uzbekistan tried several times under President Karimov to improve its difficult relations with Kyrgyzstan and Tajikistan. This dynamic appears to have been accelerated under Mirziyoyev. In particular, relations with Kyrgyzstan are important for constructing the rail link with China. There are also explicit references to China's Initiative in border management reforms. On the one hand, Kazakhstan has created an island solution in

**121** "Uzbekistan i Kazachstan podpisali kontrakty na \$27 mln" [Uzbekistan and Kazakhstan have signed contracts worth \$27 million], *UzDaily*, 25 September 2015, <http://www.uzdaily.uz/articles-id-26330.htm> (accessed 9 August 2016).

**122** Excerpt from the Statistical Office of the Republic of Kazakhstan, *Database on Investment*, <http://www.stat.gov.kz/> (accessed 9 August 2016).

**123** "Kurs na aktivizaciju torgovo-ekonomicheskogo sotrudnichestva" [En route to activating commercial economic cooperation], *UzDaily*, 18 April 2016, <http://www.uzdaily.uz/articles-id-28362.htm> (accessed 9 August 2016).

**124** Askar Muminov, "Kto ne riskuet, tot ne idet v Uzbekistan" [No risk, no Uzbekistan], *Kursiv*, 20 June 2013, <http://www.kursiv.kz/dopolnitelnye-razdely/vlast1/Kto-ne-riskuet-tot-ne-idet-v-Uzbekistan/> (accessed 12 December 2016).

**125** Statistical Office of the Republic of Kazakhstan, *Database* (see note 122).

**126** "Uzbekistan i Kazachstan podpisali Dogovor o strategicheskoy partnerstve" (see note 117).

**127** Nursultan Nasarbajew, "Plan nacji – 100 shagov po realizacii pjati institucional'nyh reform", *Kazinform*, 20 May 2015, [http://www.inform.kz/ru/plan-nacii-100-shagov-po-realizacii-pjati-institucional-nyh-reform-n-nazarbaeva\\_a2777943](http://www.inform.kz/ru/plan-nacii-100-shagov-po-realizacii-pjati-institucional-nyh-reform-n-nazarbaeva_a2777943) (accessed 12 December 2016).

**128** "Strategiya dejstvij po pjati prioritetnym napravlenijam razvitiya Respubliki Uzbekistan v 2017–2021 godach (prilozhenie No. 1)" [Trading strategy for five priority developments in the Republic of Kazakhstan between 2017 and 2021], <http://strategy.gov.uz/ru/lists/docview/15> (accessed 15 July 2017).

**129** "Eksperty: Na granicah Kazachstana carjat bezzakonie i korrupcija" (see note 94).

the border town of Khorgos and, therefore, already facilitates high-speed freight transit from China to Europe. However, the model cannot be transferred arbitrarily. On the other hand, Kazakhstan President Nazarbayev has also announced 'deep' reforms at borders in his 100 Step strategy.

### Flexible boundaries of change

The biggest challenge for Uzbekistan is to change its foreign policy and develop a reliable culture of cooperation. For Kazakhstan and Uzbekistan, it is a matter of initiating administrative reforms in the sensitive fields of security (border security) and finance (customs). Since the reforms will be costly and time consuming, the countries will have to weigh up how quickly the reforms can be implemented and how specific or comprehensive they want them to be. Firstly, this will depend on how keen the countries' centres of power are on the reforms. Secondly, reforms are always subject to a modernization dilemma and because they can jeopardize regime stability and face resistance.

The interests of both countries are crucial in determining the extent to which the respective central government pushes ahead with change. Clear differences become apparent here. While Kazakhstan's prospects for short-term and long-term economic benefits from high-speed freight transport are good, Uzbekistan's opportunities are somewhat more distant. The country must take a much longer path to reform. The Kyrgyz part of the China-Kyrgyzstan-Uzbekistan railway line is also missing, meaning that the only freight transport route from China is via Kazakhstan. Both countries depend on good relations with China because their larger neighbour plays a vital economic role in Central Asia which no other superpower from outside could take on. This also influences the interests of the Central Asian states.

However, just because the central governments have a strong interest in reform, this alone does not mean they will succeed. This is due to the modernization dilemma mentioned above. The countries want to secure the system of authoritarian rule which means retaining the monopoly of power at the top. The stability of this system rests, on the one hand, on patrimonial control over substate actors and, on the other hand, on their own patrimonial rights, in particular, the right to informal appropriation. Modifying this system through reforms is doubly dangerous. If the

centre introduces rational legal procedures, they are likely to revert back to the centre or be abused. If it removes the patrimonial rights of substate actors – in the case of border reforms, this would be mainly combating widespread corruption in state agencies – it will face resistance. The decisive factor here is that the central government is dependent on the cooperation of groups of actors from whom it wishes to withdraw rights. In the longer term, there are only three conceivable ways out of this dilemma which are not mutually exclusive.

- ▶ In the course of a power struggle, the pioneers of conservative modernization succeed against the resistance.
- ▶ There is consensus among a broad majority of the political elite that reforms are necessary. One reason for this agreement might be, for example, an internal or external constraint that would legitimize a reform.
- ▶ The gradual replacement of the old, Soviet-influenced elite could lead to a cultural change that gives new ideas a boost.

## Outlook and recommendations

The Silk Road Economic Belt (SREB) on its own will not be an engine for economic development in Central Asia. The economic well-being of the region will depend, above all, on the extent to which the countries are successful in reforming their existing growth models.

Several aspects provide grounds for assuming the SREB is more than just another investment project. There is a real chance that the initiative will have a positive impact on cooperation patterns and reforms on the borders of Central Asia. With the SREB, China is not only expressing its interest in better cooperation and modernized border management in Central Asia but is also creating an incentive structure for reforms in the Central Asian states.

Whether and to what extent change takes place in both areas is determined by the interests and abilities of the respective state to implement reforms. These factors have varying degrees of impact in Kazakhstan and Uzbekistan. It is already clear, however, that states can no longer completely avoid the project. Both have committed themselves to the SREB and have received favourable loans. They cannot afford a fundamental deterioration of relations with China. For China, on the other hand, it is important for geostrategic reasons and for its international reputation that the high-speed freight transit via the Eurasian land bridge is realized.

Against this background, three short and medium-term scenarios can be outlined for the Silk Road Economic Belt.

(1) States embrace *comprehensive reforms*, border management is modernized, Uzbekistan develops a trusting culture of cooperation. All this would reduce transport costs and duration of freight transit to Western Europe. In addition, the reforms would improve living and working conditions in the local economy and benefit small businesses and the countries' residents.

(2) *Reforms and the necessary cooperation did not occur*. This would cause the high-speed freight transit to fail in the long term because it would no longer be financially viable. However, it seems unlikely that Kazakhstan and Uzbekistan would not make any attempt to implement reforms. Nevertheless, these could prove difficult in both countries, especially in Uzbekistan.

(3) *China pursues its own interests as a matter of priority*. In this scenario, reforms do take place but only apply to the high-speed freight transit as part of the SREB. All other 'border crossers' do not benefit from improved border processing, must expect long waiting times and are still forced to make informal payments. This is the principle behind the Trans-Eurasia Logistics high-speed route which is already in operation. This model, based on formal and informal arrangements, gives SREB trains special status and would allow the Chinese Initiative to be implemented swiftly. The trains on this route are processed in record time, with no appreciable improvement in Kazakh border management.

The third scenario is most probable in the short and medium terms but is problematic for at least two reasons. Firstly, it increases the inequality between the large export companies and small, local businesses and also among citizens. Secondly, this model significantly reduces the incentive for further comprehensive reforms.

### Implications for German and European policies

For years, Germany and the EU have strived to promote intergovernmental cooperation, the rule of law and reform of border administration, including coordinated border management (CBM), in Central Asia. However, Europe had too little influence and could not generate much reform pressure on the countries. Now, China has emerged as a new actor in Central Asia with similar goals but more influence. It has built greater reform pressure and has provided reform incentives through the SREB.

The EU could try to intensify dialogue with the Central Asian states, China and the expert organizations involved on how objectives could be pursued together. This would enable the EU to strengthen its foreign policy objectives in the region and make available its expertise from past experience, for example from the BOMCA programme. At the same time, it could agree close cooperation with China and the Central Asian states. If cooperation and the rule of law can be expanded at



the borders in this manner, this would be an important milestone for further reforms in Central Asia.

It would also be conceivable that the EU seeks to position itself as a corrective to any Beijing policies which are too short-sighted and self-serving. Sustainable border reforms benefitting all 'border users' are in the interests of both the EU and a stable Central Asia. China and the Central Asian states, on the other hand, may be inclined to shy away from difficult reforms and instead insist on special rules for SREB trains.

In May 2017, at the Silk Road Forum in Beijing, China rejected some concrete EU proposals for the final communiqué. This gave Europeans the impression that a serious cooperation is generally not desired.<sup>130</sup> However, comprehensive border reforms, which apply to all, would very certainly be in China's interest. In particular, this means the model of unilateral preference for SREB trains would not prevail. International transport corridors only work if they really are multi-modal, i.e. facilitate the smooth transit of lorries. In addition, China is striving to improve its image among the population of Central Asia. Dubious practices in border processing which benefit solely China would, therefore, be counterproductive.

Specifically, Germany and the EU should address the issue on two levels. Firstly, it would make sense to this more of an issue at the political level. So far, dialogue on border reforms has been limited to the expert level and, what is known as, technical co-operation. Expert knowledge and competence are important, but it must not be overlooked that these are delicate reforms and they not only have their advocates but also numerous opponents. Receiving joint political attention from the EU and China can both strengthen the central government's interest in reforms and weaken the position of anti-reformists.

The EU-China Connectivity Platform might be an ideal arena to generate publicity. It was launched in spring 2016 through a memorandum of understanding between the European Commission and China. The overall objective is to create synergies between EU and Chinese connectivity initiatives. Point 3 of the memorandum also advocates jointly promoting unimpeded traffic flows and facilitating trade in order to

reduce trade costs along the corridors between China and Europe. If Brussels, Beijing and the governments of the Central Asian states work together on the issue of border reforms, they would also continue to further develop the founding manifesto of the platform. Furthermore, a Chinese-European partnership would enhance the platform: Beyond the issues of hard infrastructure which dominate the agenda of the platform, concerns about 'soft connectivity' could also be aired.

However, Germany and like-minded Member States would first have to convince the remaining EU countries to add the issue to their agendas. One major argument for this step is that the chances of implementing border management reforms have never been as high as they are today. Efficient border management in Central Asia would potentially contribute to growth and stability in Central Asia and thus also serve European interests. It would also be advisable for the EU itself to commit to this issue because European transport companies are among the main beneficiaries of the SREB initiative. Up to now, transport companies have unintentionally abetted SREB trains being prioritized at border crossings.

Moreover, Germany could commit EU foreign policy to greater cooperation and reforms in border management between Uzbekistan and Kazakhstan through technical cooperation but also through dialogue at a higher political level. However, the governments of the relevant Central Asian states would have to show strong interest in this form of cooperation. In principle, Kazakhstan and Uzbekistan are indeed interested in the – also visible – presence of the EU and, in particular, Germany. For this reason, direct national contact with the EU would be an advantage. This would lend itself to cooperation on reforms at border crossings between Kazakhstan and Uzbekistan for several reasons. Until the route between China, Kyrgyzstan and Uzbekistan is complete, the route via Kazakhstan will remain an important link to the south. If Europe and Germany were to commit to coordinated border management, they could help transform Uzbekistan's promises of reform into a concrete project that benefits all stakeholders. The main focus here would be to draw political attention and initiate political dialogue between the partners. In addition, Germany and the EU could draw on their own experience, for example from BOMCA and the Rule of Law Initiative. This includes technical competencies as well as sensitivity to the local context and the difficulties of implementing reforms.

<sup>130</sup> Stephan Scheuer, "Seidenstraßen-Forum: Mitsprache unerwünscht", *Handelsblatt*, 15 May 2017; Angela Stanzel, "China's Belt and Road – New Name, Same Doubts?", European Council on Foreign Relations, 19 May 2017, [http://www.ecfr.eu/article/commentary\\_chinas\\_belt\\_and\\_road\\_new\\_name\\_same\\_doubts](http://www.ecfr.eu/article/commentary_chinas_belt_and_road_new_name_same_doubts) (accessed 20 May 2017).

## Abbreviations

ADB	Asian Development Bank
BOMCA	Border Management Programme in Central Asia
CADAP	Central Asia Drug Action Programme
CAREC	Central Asia Regional Economic Cooperation Program
CBM	Coordinated Border Management
CIM/SMGS	Common consignment note for eastern and western rail freight shipments
CNPC	China National Petroleum Corporation
CSTO	Collective Security Treaty Organization
EBRD	European Bank for Reconstruction and Development
GDP	Gross domestic product
IMF	International Monetary Fund
ITC	Inland Transport Committee (UNECE)
NDRC	National Development and Reform Commission
NSC	National Security Committee of the Republic of Kazakhstan
OBOR	One Belt, One Road (former official name of the Belt and Road Initiative/New Silk Road Initiative)
OECD	Organisation for Economic Co-operation and Development
SCO	Shanghai Organization for Cooperation
SREB	Silk Road Economic Belt (name of the Eurasian section of the Belt and Road Initiative)
TFA	Trade Facilitation Agreement (WTO)
TIR	Transports Internationaux Routiers (international road transport convention)
TRACECA	Transport Corridor Europe–Caucasus–Asia
UN	United Nations
UNECE	United Nations Economic Commission for Europe
UN ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
WTO	World Trade Organization